Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Financial Report
June 30, 2013

McGladrey

Assurance ▪ Tax ▪ Consulting

Contents

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Independent Auditor's Report

To His Excellency
José H. Gomez
Archbishop of Los Angeles
Los Angeles, CA

Report on the Financial Statements

We have audited the accompanying financial statements of the Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles, which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. GAAP.

McGladrey LLP

Los Angeles, CA
December 20, 2013

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Financial Position
June 30, 2013 and 2012

	2013				2012			
Assets (Note 11)	**Unrestricted**	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Cash	**$ 121,004**	**$ -**	**$ -**	**$ 121,004**	$ 48,332	$ -	$ -	$ 48,332
Grants Receivable, net (Note 2)	**-**	**4,360,831**	**-**	**4,360,831**	30,000	-	-	30,000
Pledges Receivable, net (Note 3)	**-**	**621,453**	**-**	**621,453**	-	975,060	-	975,060
Investment in Pooled Funds (Note 4)	**32,507,346**	**4,451,413**	**17,879,752**	**54,838,511**	33,984,168	1,522,333	17,879,852	53,386,353
Other Investments (Note 5)	**97,959,393**	**-**	**-**	**97,959,393**	91,079,779	-	-	91,079,779
Total assets	**$ 130,587,743**	**$ 9,433,697**	**$ 17,879,752**	**$ 157,901,192**	$ 125,142,279	$ 2,497,393	$ 17,879,852	$ 145,519,524

Liabilities and Net Assets (Note 11)								
Liabilities								
Due to the Administrative Office (Note 6)	**$ 138,348**	**$ -**	**$ -**	**$ 138,348**	$ 81,625	$ -	$ -	$ 81,625
Funds held in trust	**5,496,214**	**-**	**-**	**5,496,214**	5,143,403	-	-	5,143,403
Program awards payable	**9,800,079**	**-**	**-**	**9,800,079**	8,362,177	-	-	8,362,177
Accounts payable and accrued expenses	**60,270**	**-**	**-**	**60,270**	42,821	-	-	42,821
Total liabilities	**15,494,911**	**-**	**-**	**15,494,911**	13,630,026	-	-	13,630,026
Commitment and Contingencies (Notes 7, 8, 10 and 12)								
Net Assets (Notes 9 and 13)	**115,092,832**	**9,433,697**	**17,879,752**	**142,406,281**	111,512,253	2,497,393	17,879,852	131,889,498
Total liabilities and net assets	**$ 130,587,743**	**$ 9,433,697**	**$ 17,879,752**	**$ 157,901,192**	$ 125,142,279	$ 2,497,393	$ 17,879,852	$ 145,519,524

See Notes to Financial Statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Activities
Years Ended June 30, 2013 and 2012

	2013				2012			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Donations (Note 8)	**$ -**	**$ 7,181,317**	**$ (100)**	**$ 7,181,217**	$ -	$ 4,697,634	$ -	$ 4,697,634
Grant revenue	**-**	**5,960,831**	**-**	**5,960,831**	-	60,000	-	60,000
Net Investment Pool income (loss) (Note 4)	**3,315,414**	**2,668,903**	**-**	**5,984,317**	(500,437)	16,047	-	(484,390)
Dividend income from other investments (Note 5)	**2,427,371**	**-**	**-**	**2,427,371**	2,407,310	-	-	2,407,310
Unrealized gain on other investments (Note 5)	**6,846,247**	**-**	**-**	**6,846,247**	16,312,331	-	-	16,312,331
	12,589,032	**15,811,051**	**(100)**	**28,399,983**	18,219,204	4,773,681	-	22,992,885
Net assets released from restrictions:								
Satisfaction of program restrictions (Note 13)	**8,874,747**	**(8,874,747)**	**-**	**-**	4,460,804	(4,460,804)	-	-
Total revenues	**21,463,779**	**6,936,304**	**(100)**	**28,399,983**	22,680,008	312,877	-	22,992,885
Expenses:								
Tuition awards program	**14,861,906**	**-**	**-**	**14,861,906**	9,505,939	-	-	9,505,939
Tuition and other program awards	**1,309,675**	**-**	**-**	**1,309,675**	819,344	-	-	819,344
Total program expenses	**16,171,581**	**-**	**-**	**16,171,581**	10,325,283	-	-	10,325,283
Employee compensation and benefits (Note 12)	**754,304**	**-**	**-**	**754,304**	755,446	-	-	755,446
General operating expenses	**440,421**	**-**	**-**	**440,421**	258,644	-	-	258,644
Fundraising expenses	**516,894**	**-**	**-**	**516,894**	149,090	-	-	149,090
Total operating expenses	**1,711,619**	**-**	**-**	**1,711,619**	1,163,180	-	-	1,163,180
Reduction for allowances of uncollectible pledges	**-**	**-**	**-**	**-**	-	-	-	-
Total expenses	**17,883,200**	**-**	**-**	**17,883,200**	11,488,463	-	-	11,488,463
Increase in net assets	**3,580,579**	**6,936,304**	**(100)**	**10,516,783**	11,191,545	312,877	-	11,504,422
Net assets, beginning 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
Net assets, end of year	**$ 115,092,832**	**$ 9,433,697**	**$ 17,879,752**	**$ 142,406,281**	$ 111,512,253	$ 2,497,393	$ 17,879,852	$ 131,889,498

See Notes to Financial Statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Cash Flows
Years Ended June 30, 2013 and 2012

	2013	2012
Cash Flows From Operating Activities		
Increase in net assets	**$ 10,516,783**	$ 11,504,422
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Realized and unrealized investment pool (gain) loss	**(5,140,062)**	1,425,440
Unrealized gain on other investments	**(6,846,247)**	(16,312,332)
Amortization of grant discounts	**39,169**	-
Amortization of pledge discounts	**(2,469)**	583
Assets contributed for long-term investments	**100**	-
(Increase) decrease in grants receivable	**(4,370,000)**	145,000
Decrease (increase) in pledges receivable	**356,076**	(537,759)
Increase in due to the Administrative Office	**56,723**	23,252
Increase (decrease) in funds held in trust	**352,811**	(351,505)
Increase in program awards payable	**1,437,902**	1,406,297
Increase (decrease) in accounts payable and accrued expenses	**17,449**	(13,364)
Net cash used in operating activities	**(3,581,765)**	(2,709,966)
Cash Flows From Investing Activities		
Additions to other investments	**(120,000)**	(305,000)
Redemptions from other investments	**86,633**	202
Additions to investment in pooled funds	**(8,382,489)**	(5,286,389)
Redemptions from investment in pooled funds	**12,070,393**	8,036,990
Net cash provided by investing activities	**3,654,537**	2,445,803
Cash Flows From Financing Activities		
Assets contributed for long-term investments	**(100)**	-
Net cash used in financing activities	**(100)**	-
Net change in cash	**72,672**	(264,163)
Cash, beginning of year	**48,332**	312,495
Cash, end of year	**$ 121,004**	$ 48,332

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 0.66 percent and 0.41 percent for the fiscal years ended June 30, 2013 and 2012, 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. 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 0.66 percent and 0.41 percent for the fiscal years ended June 30, 2013 and 2012, respectively. Amortization of the discounts is included in grant revenue. 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 investments 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.

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, 2013 or 2012.

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 14.01 percent and 12.92 percent of the award commitment in 2013 and 2012, respectively.

Concentration: The Foundation received $1,218,104 and $1,072,300 from one donor during the years ended June 30, 2013 and 2012, respectively. The donations came from individuals, trusts or foundations.

Fair value measurements: The Foundation adopted FASB ASC 820, *Fair Value Measurement*, 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 20, 2013, the date the financial statements were available to be issued, in preparing the financial statements and notes thereto.

Note 2. Grants Receivable

Included in grants receivable were the following as of June 30:

	2013	2012
Grants receivable	$ 4,400,000	$ 30,000
Less unamortized discount	(39,169)	-
Grants receivable, net	$ 4,360,831	$ 30,000

	2013	2012
Amounts due in:		
Less than one year	$ 1,400,000	$ 30,000
One to five years	3,000,000	-
	$ 4,400,000	$ 30,000

The discount rate applied in determining that the unamortized discount was 0.66 percent for 2013, which was the rate for the three-year Treasury securities for that year.

Note 3. Pledges Receivable

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

	2013	2012
Pledges receivable, before unamortized discount and allowance for uncollectible pledges	$ 691,030	$ 1,047,106
Less unamortized discount	(68,577)	(71,046)
	622,453	976,060
Less allowance for uncollectible pledges	(1,000)	(1,000)
Pledges receivable, net	$ 621,453	$ 975,060

	2013	2012
Amounts due in:		
Less than one year	$ 350,000	$ 356,076
One to five years	95,000	445,000
More than five years	246,030	246,030
	$ 691,030	$ 1,047,106

The discount rate applied in determining the unamortized discount was 0.66 percent and 0.41 percent for 2013 and 2012, respectively, which was the rate for the three-year Treasury securities during those years.

Note 3. Pledges Receivable (Continued)

Pledges receivable totaling $580,030 and $886,030 were receivable from related parties, net of allowance for uncollectible pledges of $1,000, at June 30, 2013 and 2012, 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, 2013 and 2012 are invested 67 percent and 65 percent in equities, 29 percent and 32 percent in fixed-income securities, 3 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, 2013 and 2012 are invested 90 percent and 91 percent in fixed-income securities, 6 percent and 6 percent in notes receivable, 3 percent and 2 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 the disclosures about fair value measurements. At June 30, 2013, the Pool was considered a Level 3 investment. At June 30, 2013, the Pool invested 40 percent, 50 percent and 10 percent in fair value hierarchy Levels 1, 2 and 3, respectively. At June 30, 2012, the Pool invested 36 percent, 54 percent and 10 percent in fair value hierarchy Levels 1, 2 and 3, respectively.

As of June 30, 2013 and 2012, the Foundation’s fair value in the portion invested in the pools was $54,414,264 and $51,838,726, respectively, in the Balanced Pool and $424,247 and $1,547,627, 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:

	2013	2012
Average annual return:		
Balanced Pool	13.70%	-0.10%
Income Pool	0.70%	0.80%
Interest and dividend income:		
Balanced Pool	$ 1,228,528	$ 1,339,856
Income Pool	15,126	7,905
Total interest and dividend income	1,243,654	1,347,761
Net realized and unrealized gain (loss):		
Balanced Pool	5,139,024	(1,423,409)
Income Pool	1,038	(2,031)
Total net realized and unrealized gain (loss)	5,140,062	(1,425,440)
Investment expenses	(399,399)	(406,711)
Total investment income (loss), net	$ 5,984,317	$ (484,390)

Note 5. Other Investments

Other investments include the investment in Watson Land Company (501,523 shares owned in 2013 and 2012), 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, 2013 and 2012, 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 $97,170,081 and $90,524,902 at June 30, 2013 and 2012, respectively.

The unrealized gain on investment in Watson Land Company was $6,645,179 and $16,299,498 for the years ended June 30, 2013 and 2012, respectively, and represents the change in the fair value of the investment. Dividend income on Watson Land Company shares was $2,427,371 and $2,407,310 for the years ended June 30, 2013 and 2012. The Foundation’s investment in Watson Land Company stock represented 63.6 percent and 62.7 percent of total investments at June 30, 2013 and 2012, 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, 2013 and 2012, the Foundation's unfunded capital commitment was $368,454 and $432,060, respectively. During the years ended June 30, 2013 and 2012, the Foundation made $120,000 and $305,000 in cash contributions to Shea Ventures Opportunity Fund, LP and received a capital distribution of $86,632 in the year ended June 30, 2013. There was no capital distribution during the year ended June 30, 2012. The investment had a net return of $201,068 and $12,633, of which $194,221 and $12,833 were from unrealized gains for the years ended June 30, 2013 and 2012, 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, 2013 and 2012, 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 $789,312 and $554,877 at June 30, 2013 and 2012, respectively.

Note 6. 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 $138,348 and $81,625 at June 30, 2013 and 2012, respectively. Additionally, the Foundation occupies office space at the Administrative Office, for which no rent is being charged to the Foundation.

Note 7. 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 8. 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 $1,427,665 and $1,417,665 during the years ended June 30, 2013 and 2012, 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, 2013 and 2012.

Note 9. 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:

	2013	
	Temporarily Restricted	Permanently Restricted
Tuition awards program	$ 5,269,542	$ -
Urban Peace and Racial Tolerance 1 and 2	121,593	-
Tuition awards program, honorary funds	301,799	1,302,336
Tuition awards program, individual donors	3,539,052	16,577,416
Other	201,711	-
	$ 9,433,697	$ 17,879,752

	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

Note 10. 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 11. Fair Value of Financial Instruments

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

Investment in pooled funds: The fair value of investments in pooled funds 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.

Note 11. Fair Value of Financial Instruments (Continued)

Grants and pledges receivable: The fair values of the pledges and grants receivable are determined by analyzing discounted cash flow, using the interest rate used for three-year Treasury securities. Pledges and grants received in the fiscal years ended June 30, 2013 and 2012 are discounted using the interest rate for the three-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 12. 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 $18,962 and $17,473 for the years ended June 30, 2013 and 2012, respectively.

Note 13. 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 13. 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, 2013 and 2012. For the years ended June 30, 2013 and 2012, the actual expenditures from endowment funds used in support of operations were $800 in each year.

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

	2013	2012
Investment in pooled funds	$ 21,720,603	$ 19,069,332

Endowment net assets as of June 30 were as follows:

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Tuition awards program, honorary funds	$ -	$ 301,799	$ 1,302,336	$ 1,604,135
Tuition awards program, individual donors	-	3,539,052	16,577,416	20,116,468
Total endowment funds	$ -	$ 3,840,851	$ 17,879,752	$ 21,720,603

	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

Note 13. Endowment Funds and Net Asset Classification (Continued)

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

	2013			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ (155,299)	$ 1,344,779	$ 17,879,852	$ 19,069,332
Investment return:				
Investment income (loss)	(234,002)	593,772	-	359,770
Net increase in realized and unrealized	389,301	1,903,100	-	2,292,401
Total investment return	155,299	2,496,872	-	2,652,171
Other changes	-	-	(100)	(100)
Appropriation of endowment funds for expenditure	-	(800)	-	(800)
Endowment net assets, end of year	$ -	$ 3,840,851	$ 17,879,752	$ 21,720,603

	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

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, the Foundation's donor-restricted endowment funds were underwater by $155,299. These amounts were reported in unrestricted net assets. These deficiencies, which the Foundation believes are temporary, resulted from unfavorable market fluctuations. As of June 30, 2013, no donor-restricted endowment funds were underwater.

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, 2013 and 2012 were $8,874,747 and $4,460,804, respectively.