



Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Financial Report
June 30, 2015

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Independent Auditor's Report

RSM US LLP

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

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, 2015 and 2014; 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 audit 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in conformity with U.S. GAAP.

RSM US LLP

Los Angeles, California
December 18, 2015

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

**Statements of Financial Position
June 30, 2015 and 2014**

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets (Note 12)								
Cash	\$ 4,724	\$ 152,199	\$ -	\$ 156,923	\$ 213,377	\$ -	\$ -	\$ 213,377
Accounts receivable	-	2,000	-	2,000	-	-	-	-
Grants receivable, net (Note 2)	-	1,993,443	-	1,993,443	-	2,980,373	-	2,980,373
Pledges receivable, net (Note 3)	-	286,413	-	286,413	-	651,356	-	651,356
Investment in pooled funds (Note 4)	458,494	281,350	-	739,844	32,308,864	9,524,905	17,879,752	59,713,521
Investments held at CCFLA (Note 5)	27,117,451	7,123,923	18,899,752	53,141,126	-	-	-	-
Other investments (Note 6)	131,129,222	-	-	131,129,222	116,833,810	-	-	116,833,810
Prepaid expenses	1,400	-	-	1,400	-	-	-	-
Total assets	\$ 158,711,291	\$ 9,839,328	\$ 18,899,752	\$ 187,450,371	\$ 149,356,051	\$ 13,156,634	\$ 17,879,752	\$ 180,392,437
Liabilities and Net Assets (Note 12)								
Liabilities:								
Due to the administrative office (Note 7)	\$ 87,180	\$ -	\$ -	\$ 87,180	\$ 183,048	\$ -	\$ -	\$ 183,048
Funds held in trust	5,945,838	-	-	5,945,838	6,119,749	-	-	6,119,749
Program awards payable	10,769,693	-	-	10,769,693	9,551,695	-	-	9,551,695
Accounts payable and accrued expenses	42,698	1,382	-	44,080	49,464	-	-	49,464
Total liabilities	16,845,409	1,382	-	16,846,791	15,903,956	-	-	15,903,956
Commitments and contingencies (Notes 8, 9, 11 and 13)								
Net assets (Notes 10 and 14)	141,865,882	9,837,946	18,899,752	170,603,580	133,452,095	13,156,634	17,879,752	164,488,481
Total liabilities and net assets	\$ 158,711,291	\$ 9,839,328	\$ 18,899,752	\$ 187,450,371	\$ 149,356,051	\$ 13,156,634	\$ 17,879,752	\$ 180,392,437

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

**Statements of Activities
Years Ended June 30, 2015 and 2014**

	2015				2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Donations (Note 9)	\$ -	\$ 3,375,177	\$ 1,020,000	\$ 4,395,177	\$ -	\$ 6,841,218	\$ -	\$ 6,841,218
Grant revenue	-	13,070	-	13,070	-	169,541	-	169,541
Net Investment Pool income (Note 4)	299,321	527,604	-	826,925	1,662,299	6,511,429	-	8,173,728
Net investments loss on investments held at CCFLA (Note 5)	(18,513)	(15,046)	-	(33,559)	-	-	-	-
Dividend income from other investments (Note 6)	2,648,042	-	-	2,648,042	2,547,737	-	-	2,547,737
Unrealized gain on other investments (Note 6)	14,227,834	-	-	14,227,834	18,899,949	-	-	18,899,949
	17,156,684	3,900,805	1,020,000	22,077,489	23,109,985	13,522,188	-	36,632,173
Net assets released from restrictions:								
Satisfaction of program restrictions (Note 14)	7,219,493	(7,219,493)	-	-	9,799,251	(9,799,251)	-	-
Total revenues	24,376,177	(3,318,688)	1,020,000	22,077,489	32,909,236	3,722,937	-	36,632,173
Expenses:								
Tuition awards program	11,923,047	-	-	11,923,047	11,045,623	-	-	11,045,623
Tuition and other program awards	2,706,274	-	-	2,706,274	2,148,290	-	-	2,148,290
Total program expenses	14,629,321	-	-	14,629,321	13,193,913	-	-	13,193,913
Employee compensation and benefits (Note 13)	940,751	-	-	940,751	925,538	-	-	925,538
General operating expenses	239,687	-	-	239,687	292,747	-	-	292,747
Fundraising expenses	152,631	-	-	152,631	137,775	-	-	137,775
Total operating expenses	1,333,069	-	-	1,333,069	1,356,060	-	-	1,356,060
Total expenses	15,962,390	-	-	15,962,390	14,549,973	-	-	14,549,973
Increase (decrease) in net assets	8,413,787	(3,318,688)	1,020,000	6,115,099	18,359,263	3,722,937	-	22,082,200
Net assets, beginning of year	133,452,095	13,156,634	17,879,752	164,488,481	115,092,832	9,433,697	17,879,752	142,406,281
Net assets, end of year	\$ 141,865,882	\$ 9,837,946	\$ 18,899,752	\$ 170,603,580	\$ 133,452,095	\$ 13,156,634	\$ 17,879,752	\$ 164,488,481

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Cash Flows
Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Increase in net assets	\$ 6,115,099	\$ 22,082,200
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Realized and unrealized investment pool gain	(374,770)	(7,459,138)
Realized and unrealized loss on investments in CCFLA	263,378	-
Unrealized gain on other investments	(14,227,834)	(18,899,949)
Change in grants receivable discounts	(13,070)	(19,542)
Change in pledges receivable discounts	(557)	1,847
Assets contributed for long-term investments	(1,020,000)	-
Increase in accounts receivable	(2,000)	-
Decrease in grants receivable	1,000,000	1,400,000
Decrease (increase) in pledges receivable	365,500	(31,750)
Increase in prepaid expenses	(1,400)	-
(Decrease) increase in due to the Administrative Office	(95,868)	44,700
(Decrease) increase in funds held in trust	(173,911)	623,535
Increase (decrease) in program awards payable	1,217,998	(248,384)
Decrease in accounts payable and accrued expenses	(5,384)	(10,806)
Net cash used in operating activities	(6,952,819)	(2,517,287)
Cash flows from investing activities:		
Additions to other investments	(73,202)	(120,000)
Redemptions from other investments	5,625	145,533
Additions to investments in CCFLA	(2,120,000)	-
Additions to investment in pooled funds	(1,342,024)	(4,594,052)
Redemptions from investment in pooled funds	9,405,966	7,178,179
Net cash provided by investing activities	5,876,365	2,609,660
Cash flows from financing activities:		
Assets contributed for long-term investments	1,020,000	-
Net cash provided by financing activities	1,020,000	-
Net change in cash	(56,454)	92,373
Cash, beginning of year	213,377	121,004
Cash, end of year	\$ 156,923	\$ 213,377

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

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 1.01 percent and 0.88 percent for the fiscal years ended June 30, 2015 and 2014, respectively. The discounts are 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.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

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 1.01 percent and 0.88 percent for the fiscal years ended June 30, 2015 and 2014, respectively. The discounts are 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 in pooled funds: The Foundation has an investment in the Investment Pool of the Archdiocese of Los Angeles, which is recorded at fair value (see Note 4). 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.

Investments held at CCFLA: The Foundation has investments in the Catholic Community Foundation of Los Angeles (CCFLA) (see Note 5). These investments were transferred from the Archdiocesan Investment Pool to CCFLA on an agency basis. The Foundation is the sole owner of these investments. The fair value of the investments is determined by management of CCFLA based on the underlying fair value of total investments held. The Foundation is allocated income (loss) based upon allocation of the total return earned in invested equity and debt securities held by CCFLA, 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 stipulation.

Other investments: The Foundation also has investments in Watson Land Company and Shea Ventures Opportunity Fund, LP (see Note 6), 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 statements 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.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

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

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, 2015 or 2014.

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 12.69 percent and 14.08 percent of the award commitment in 2015 and 2014, respectively.

Concentration: The Foundation received \$1,020,000 and \$1,000,000 from one donor during the years ended June 30, 2015 and 2014, 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.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

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

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.

Subsequent events: The Foundation has considered subsequent events through December 18, 2015, the date the financial statements were available to be issued, in preparing the financial statements and notes thereto.

Note 2. Grants Receivable, Net

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

	2015	2014
Grants receivable	\$ 2,000,000	\$ 3,000,000
Less:		
Discount to net present value	(6,557)	(19,627)
Grants receivable, net	<u>\$ 1,993,443</u>	<u>\$ 2,980,373</u>
	2015	2014
Amounts due in:		
Less than one year	\$ 1,000,000	\$ 1,000,000
One to five years	1,000,000	2,000,000
	<u>\$ 2,000,000</u>	<u>\$ 3,000,000</u>

The discount rate applied in determining the discount to net present value was 1.01 percent and 0.88 percent for 2015 and 2014, respectively, which was the rate for the three-year Treasury securities for that year.

Note 3. Pledges Receivable, Net

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

	2015	2014
Pledges receivable, before unamortized discount and allowance for uncollectible pledges	\$ 357,280	\$ 722,780
Less:		
Discount to net present value	(69,867)	(70,424)
Allowance for uncollectible pledges	(1,000)	(1,000)
Pledges receivable, net	<u>\$ 286,413</u>	<u>\$ 651,356</u>

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 3. Pledges Receivable (Continued)

	2015	2014
Amounts due in:		
Less than one year	\$ 41,250	\$ 365,500
One to five years	40,000	71,250
More than five years	276,030	286,030
	<u>\$ 357,280</u>	<u>\$ 722,780</u>

The discount rate applied in determining the discount to net present value was 1.01 percent and 0.88 percent for 2015 and 2014, respectively, which was the rate for the three-year Treasury securities during those years.

Pledges receivable totaling \$260,030 and \$566,030 were receivable from related parties, net of allowance for uncollectible pledges of \$1,000 both at June 30, 2015 and 2014. 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, 2015 and 2014 are invested 67 percent and 69 percent in equities, 30 percent and 23 percent in fixed-income securities, 2 percent and 4 percent in cash and cash equivalents, and 1 percent and 4 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, 2015 and 2014 are invested 88 percent and 87 percent in fixed-income securities, 6 percent and 7 percent in notes receivable, 5 percent and 5 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, 2015, the Pool was considered a Level 3 investment. At June 30, 2015, the Pool invested 55 percent, 39 percent and 6 percent in fair value hierarchy Levels 1, 2 and 3, respectively. At June 30, 2014, the Pool invested 54 percent, 39 percent and 7 percent in fair value hierarchy Levels 1, 2 and 3, respectively.

As of June 30, 2015 and 2014, the Foundation's fair value in the portion invested in the pools was \$136,186 and \$57,958,502, respectively, in the Balanced Pool and \$603,658 and \$1,755,019, respectively, in the Income Pool.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

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 related to these investments for the years ended June 30 were as follows:

	2015	2014
Average annual return:		
Archdiocesan Balanced Pool	2.10%	18.00%
Archdiocesan Income Pool	0.70%	1.30%

Investments of the Pools consist of the following at June 30:

Interest and dividend income:		
Balanced Pool	\$ 645,432	\$ 1,076,120
Income Pool	6,602	4,663
Total interest and dividend income	<u>652,034</u>	<u>1,080,783</u>
Net realized and unrealized gain:		
Balanced Pool	376,158	7,458,855
Income Pool	(1,388)	283
Total net realized and unrealized gain	<u>374,770</u>	<u>7,459,138</u>
Investment expenses	(199,879)	(366,193)
Total investment income, net	<u>\$ 826,925</u>	<u>\$ 8,173,728</u>

Note 5. Investments Held at CCFLA

The Catholic Community Foundation of Los Angeles (CCFLA) manages an investment fund (Balanced Pool Fund) whereby the underlying investments consist of equity securities (between 45 percent and 55 percent), international equities (15 percent to 25 percent) and U.S. fixed income securities (25 percent to 35 percent). The Foundation began investing in the Balanced Pool of the CCFLA during the fiscal year ended June 30, 2015. The Foundation's share of investments held at the CCFLA's Balanced Pool was \$53,141,126 as of June 30, 2015.

The investments had a net loss of \$33,559 for the year ended June 30, 2015, consisting of interest and dividend income of \$251,294, a realized and unrealized loss of \$263,378 and investment expenses of \$21,475.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 6. Other Investments

Other investments include the investment in Watson Land Company (501,523 shares owned in 2015 and 2014), 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, 2015 and 2014, 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 \$130,395,980 and \$116,102,575 at June 30, 2015 and 2014, respectively.

The unrealized gain on investment in Watson Land Company was \$14,293,405 and \$18,932,493 for the years ended June 30, 2015 and 2014, respectively, and represents the change in the fair value of the investment. Dividend income on Watson Land Company shares was \$2,648,042 and \$2,547,737 for the years ended June 30, 2015 and 2014, respectively. The Foundation's investment in Watson Land Company stock represented 70.5 percent and 65.8 percent of total investments at June 30, 2015 and 2014, respectively, and therefore presents a concentration of credit risk.

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, 2015 and 2014, the Foundation's unfunded capital commitment was \$231,645 and \$304,847, respectively. During the years ended June 30, 2015 and 2014, the Foundation made \$73,200 and \$120,000 in cash contributions to Shea Ventures Opportunity Fund, LP and received a capital distribution of \$5,624 and \$145,532 in the years ended June 30, 2015 and 2014, respectively. The investment had a net return of (\$65,571) and (\$32,544), of which (\$45,342) and (\$14,675) were from unrealized and realized gain (loss) for the years ended June 30, 2015 and 2014, 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, 2015 and 2014, 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 \$733,242 and \$731,235 at June 30, 2015 and 2014, respectively.

Note 7. Due to the Administrative Office

The Administrative Office disburses funds on behalf of the Foundation, primarily for employee-related expenses. 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 \$87,180 and \$183,048 at June 30, 2015 and 2014, respectively. Additionally, the Foundation occupies office space at the Administrative Office, for which no rent is being charged to the Foundation.

Note 8. 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.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 9. 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 amounts of these gift annuities totaled \$1,957,665 and \$1,697,665 during the years ended June 30, 2015 and 2014, respectively, and are 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, 2015 and 2014.

Note 10. 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:

	2015	
	Temporarily Restricted	Permanently Restricted
Tuition awards program	\$ 9,701,760	\$ 18,899,752
Urban Peace and Racial Tolerance 1 and 2	136,186	-
	<u>\$ 9,837,946</u>	<u>\$ 18,899,752</u>
	2014	
	Temporarily Restricted	Permanently Restricted
Tuition awards program	\$ 13,019,022	\$ 17,879,752
Urban Peace and Racial Tolerance 1 and 2	137,612	-
	<u>\$ 13,156,634</u>	<u>\$ 17,879,752</u>

Note 11. 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 12. Fair Value of Financial Instruments

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

Cash and investment in pooled funds: The carrying amounts of these financial instruments approximate fair value due to the short maturity and readily available markets for these instruments.

Investments held at CCFLA: The fair value of investments held at CCFLA is determined by management of CCFLA based on the underlying fair value of investments that make up the total investments.

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Notes to Financial Statements

Note 12. Fair Value of Financial Instruments (Continued)

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

Grants and pledges receivable: The fair values of the pledges and grants receivable are determined by analyzing discounted cash flow, using a risk-free interest rate on Treasury notes. 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 13. 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 \$21,748 and \$16,848 for the years ended June 30, 2015 and 2014, respectively.

Note 14. 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.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 14. 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, 2015 and 2014. For the years ended June 30, 2015 and 2014, the actual expenditures from endowment funds used in support of operations were \$1,044,331 and \$1,000, respectively.

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

	2015	2014
Investment in pooled funds	<u>\$ 26,023,675</u>	<u>\$ 25,538,908</u>

Endowment net assets as of June 30 were as follows:

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Tuition awards program	\$ -	\$ 7,123,923	\$ 18,899,752	\$ 26,023,675
Total endowment funds	<u>\$ -</u>	<u>\$ 7,123,923</u>	<u>\$ 18,899,752</u>	<u>\$ 26,023,675</u>
	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Tuition awards program	\$ -	\$ 7,659,156	\$ 17,879,752	\$ 25,538,908
Total endowment funds	<u>\$ -</u>	<u>\$ 7,659,156</u>	<u>\$ 17,879,752</u>	<u>\$ 25,538,908</u>

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Notes to Financial Statements

Note 14. Endowment Funds and Net Asset Classification (Continued)

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

	2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 7,659,156	\$ 17,879,752	\$ 25,538,908
Investment return:				
Investment income	-	360,966	-	360,966
Net increase in realized and unrealized	-	148,132	-	148,132
Total investment return	-	509,098	-	509,098
Contributions	-	-	1,020,000	1,020,000
Appropriation of endowment funds for expenditure	-	(1,044,331)	-	(1,044,331)
Endowment net assets, end of year	\$ -	\$ 7,123,923	\$ 18,899,752	\$ 26,023,675
	2014			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 3,840,851	\$ 17,879,752	\$ 21,720,603
Investment return:				
Investment income	-	350,059	-	350,059
Net increase in realized and unrealized	-	3,469,246	-	3,469,246
Total investment return	-	3,819,305	-	3,819,305
Appropriation of endowment funds for expenditure	-	(1,000)	-	(1,000)
Endowment net assets, end of year	\$ -	\$ 7,659,156	\$ 17,879,752	\$ 25,538,908

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. These deficiencies are reported in unrestricted net assets and are the result of unfavorable market fluctuations. As of June 30, 2015 and 2014, no donor-restricted endowments fell below this required level.

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, 2015 and 2014 were \$7,219,493 and \$9,799,251, respectively.