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December 4, 2018

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

In accordance with your request, we are attaching the electronic draft of the statements of financial position for the Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles as of June 30, 2018 and 2017, the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

In conjunction with your request for this document to be provided to you, if in e-mail or facsimile format, you understand that the electronic transmission is not entirely secure and that it is possible for confidential financial information to be intercepted by others.

We do not express an opinion at this time on the statements mentioned above because they are a preliminary draft and we have not as yet completed all of the auditing procedures that we consider necessary.

This preliminary draft is for review and discussion purposes only and is, therefore, subject to change. We ask that you delete from your computer any preliminary draft versions of the financial statements provided to you in an electronic format and destroy all printed copies of preliminary draft versions when you have finished with them.

RSM US LLP

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Attachment

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Financial Report
June 30, 2018

Contents

[This page is reserved for the Independent Auditor's Report.]

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Financial Position
June 30, 2018 and 2017

	2018				2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets (Note 12)								
Cash	**$ 325,852**	**$ 58,368**	**$ -**	**$ 384,220**	$ 100,497	$ 40,824	$ -	$ 141,321
Accounts receivable	**-**	**43,263**	**-**	**43,263**	3,480	3,735	-	7,215
Grants receivable, net (Note 2)	**-**	**590,888**	**-**	**590,888**	-	781,870	-	781,870
Pledges receivable, net (Note 3)	**-**	**1,402,193**	**-**	**1,402,193**	-	1,874,223	-	1,874,223
Other receivable (Note 9)	**-**	**205,656**	**-**	**205,656**	-	-	-	-
Investments in pooled funds (Note 4)	**1,135,444**	**482,005**	**-**	**1,617,449**	302,326	480,315	-	782,641
Investments held at CCFLA (Note 5)	**28,206,738**	**8,220,946**	**18,929,819**	**55,357,503**	19,639,176	7,271,485	18,929,819	45,840,480
Other investments (Note 6)	**182,168,053**	**-**	**-**	**182,168,053**	159,948,883	-	-	159,948,883
Prepaid expenses	**21,418**	**-**	**-**	**21,418**	23,578	-	-	23,578
Total assets	**$ 211,857,505**	**$ 11,003,319**	**$ 18,929,819**	**$ 241,790,643**	$ 180,017,940	$ 10,452,452	$ 18,929,819	$ 209,400,211
Liabilities and Net Assets (Note 12)								
Liabilities:								
Due to the Administrative Office (Note 7)	**$ 61,533**	**$ -**	**$ -**	**$ 61,533**	$ 193,030	$ -	$ -	$ 193,030
Funds held in trust	**7,087,780**	**-**	**-**	**7,087,780**	6,021,118	-	-	6,021,118
Program awards payable	**11,737,983**	**-**	**-**	**11,737,983**	10,222,409	-	-	10,222,409
Accounts payable and accrued expenses	**30,082**	**-**	**-**	**30,082**	54,339	-	-	54,339
Total liabilities	**18,917,378**	**-**	**-**	**18,917,378**	16,490,896	-	-	16,490,896
Commitments and contingencies (Notes 8, 9, 11 and 13)								
Net assets (Notes 10 and 14)	**192,940,127**	**11,003,319**	**18,929,819**	**222,873,265**	163,527,044	10,452,452	18,929,819	192,909,315
Total liabilities and net assets	**$ 211,857,505**	**$ 11,003,319**	**$ 18,929,819**	**$ 241,790,643**	$ 180,017,940	$ 10,452,452	$ 18,929,819	$ 209,400,211

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Activities
Years Ended June 30, 2018 and 2017

	2018				2017			
	Unrestricted	**Temporarily Restricted**	**Permanently Restricted**	**Total**	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Donations (Note 9)	**$ -**	**$ 5,540,966**	**$ -**	**$ 5,540,966**	$ -	$ 7,424,869	$ -	$ 7,424,869
Grant revenue	**-**	**16,519**	**-**	**16,519**	-	981,870	-	981,870
Net Investment Pool income (Note 4)	**3,340**	**18,600**	**-**	**21,940**	3,081	20,070	-	23,151
Net investment income on investments held at CCFLA (Note 5)	**1,457,847**	**2,177,755**	**-**	**3,635,602**	1,399,790	2,915,870	-	4,315,660
Dividend income from other investments (Note 6)	**2,920,854**	**-**	**-**	**2,920,854**	2,808,529	-	-	2,808,529
Unrealized gain on other investments (Note 6)	**32,226,736**	**-**	**-**	**32,226,736**	26,076,395	-	-	26,076,395
	36,608,777	**7,753,840**	**-**	**44,362,617**	30,287,795	11,342,679	-	41,630,474
Net assets released from restrictions:								
Satisfaction of program restrictions (Note 14)	**7,133,238**	**(7,133,238)**	**-**	**-**	9,375,672	(9,375,672)	-	-
Total revenues	**43,742,015**	**620,602**	**-**	**44,362,617**	39,663,467	1,967,007	-	41,630,474
Expenses:								
Tuition awards program	**12,533,117**	**-**	**-**	**12,533,117**	11,552,467	-	-	11,552,467
Tuition and other program awards	**579,459**	**-**	**-**	**579,459**	704,603	-	-	704,603
Total program expenses	**13,112,576**	**-**	**-**	**13,112,576**	12,257,070	-	-	12,257,070
Employee compensation and benefits (Note 13)	**980,098**	**-**	**-**	**980,098**	1,230,438	-	-	1,230,438
General operating expenses	**114,043**	**-**	**-**	**202,995**	150,620	-	-	150,620
Fundraising expenses	**122,215**	**-**	**-**	**33,263**	283,962	-	-	283,962
Total operating expenses	**1,216,356**	**-**	**-**	**1,216,356**	1,665,020	-	-	1,665,020
Total expenses	**14,328,932**	**-**	**-**	**14,328,932**	13,922,090	-	-	13,922,090
Increase in net assets from operating activities	**29,413,083**	**620,602**	**-**	**30,033,685**	25,741,377	1,967,007	-	27,708,384
Other changes:								
Change in value of beneficial interest in charitable gift annuity (Note 9)	**-**	**69,735**	**-**	**69,735**	-	-	-	-
Increase in net assets	**29,413,083**	**550,867**	**-**	**29,963,950**	25,741,377	1,967,007	-	27,708,384
Net assets, beginning of year	**163,527,044**	**10,452,452**	**18,929,819**	**192,909,315**	137,785,667	8,485,445	18,929,819	165,200,931
Net assets, end of year	**$ 192,940,127**	**$ 11,003,319**	**$ 18,929,819**	**$ 222,873,265**	$ 163,527,044	$ 10,452,452	$ 18,929,819	$ 192,909,315

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Cash Flows
Years Ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Increase in net assets	**$ 29,963,950**	$ 27,708,384
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Realized and unrealized gain on Investment Pool	**(9,760)**	(13,013)
Realized and unrealized gain on investments held at CCFLA	**(3,045,114)**	(3,897,229)
Unrealized gain on other investments	**(32,226,736)**	(26,076,395)
(Increase) decrease in grants receivable discounts	**(9,018)**	18,130
(Increase) decrease in pledges receivable discounts	**(13,686)**	26,896
(Increase) decrease in accounts receivable	**(36,048)**	14,374
Decrease in grants receivable	**200,000**	200,000
Decrease (increase) in pledges receivable	**485,716**	(765,000)
Increase in other receivable	**(205,656)**	-
Decrease (increase) in prepaid expenses	**2,160**	(22,178)
(Decrease) increase in due to the Administrative Office	**(131,497)**	93,825
Increase in funds held in trust	**1,066,662**	539,046
Increase in program awards payable	**1,515,574**	434,916
(Decrease) increase in accounts payable and accrued expenses	**(24,257)**	11,481
Net cash used in operating activities	**(2,467,710)**	(1,726,763)
Cash flows from investing activities:		
Additions to investments held at CCFLA	**(13,076,767)**	(739,612)
Redemptions from investments held at CCFLA	**6,604,858**	1,963,248
Additions to investment in pooled funds	**(2,705,152)**	(1,301,506)
Redemptions from investment in pooled funds	**1,880,104**	1,367,131
Redemptions from other investments	**10,007,566**	427,755
Net cash provided by investing activities	**2,710,609**	1,717,016
Net change in cash	**242,899**	(9,747)
Cash, beginning of year	**141,321**	151,068
Cash, end of year	**$ 384,220**	$ 141,321

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 are 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 at the Catholic Community Foundation of Los Angeles (CCFLA) (see Note 5).

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 2.63 percent and 1.55 percent for the fiscal years ended June 30, 2018 and 2017, 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.

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 2.63 percent and 1.55 percent for the fiscal years ended June 30, 2018 and 2017, 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 (the 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 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 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.

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.

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

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, 2018 or 2017.

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 9.05 percent and 10.82 percent of the award commitment in 2018 and 2017, respectively.

Concentration: The Foundation received $3,000,000 from two donors and $5,000,000 from four donors during the years ended June 30, 2018 and 2017, 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)

Recently issued accounting pronouncements: Accounting Standards Update (ASU) 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made,* assists entities in (1) evaluating whether transactions should be accounted for as contributions (nonreciprocal transactions) within the scope of Topic 958, or as exchange (reciprocal) transactions subject to other guidance and (2) determining whether a contribution is conditional. The ASU is effective for fiscal years beginning after December 15, 2019. The Foundation is currently evaluating the effects that adoption of this accounting standard will on its financial statements.

ASU 2018-13, *Fair Value Measurement (Topic 820): Disclosure Framework—Changes to the Disclosure Requirements for Fair Value Measurement*, is intended to improve the effectiveness and disclosures in the notes to the financial statements by facilitating clear communication of the information required by U.S. GAAP. The ASU is effective for fiscal years beginning after December 15, 2019. The Foundation is currently evaluating the effects that the adoption of this accounting standard will have on its financial statements.

ASU 2015-07, *Fair Value Measurement (Topic 820): Disclosures for Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent) (a consensus of the FASB Emerging Issues Task Force)*, removes the requirement to categorize within the fair value hierarchy investments for which fair values are measured at net asset value using the practical expedient. The ASU is effective for fiscal years beginning after December 15, 2016. The Foundation does not expect the adoption of this accounting standard to have a material impact on its financial statements.

ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, simplifies and improves how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance and cash flows. This ASU is effective for annual financial statements issued for fiscal years beginning after December 15, 2017. The Foundation is currently evaluating the effects that adoption of this guidance will have on its financial statements.

In May 2014, the FASB issued ASU 2014-09, *Revenue From Contracts With Customers (Topic 606),* requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. The updated standard will be effective for annual reporting periods beginning after December 15, 2018. The Foundation does not expect the adoption of this ASU to have a material impact on its financial statements.

Subsequent events: The Foundation has considered subsequent events through __________, 2018, 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:

		2018		2017
Grants receivable	$	600,000	$	800,000
Less:				
Discount to net present value		(9,112)		(18,130)
Grants receivable, net	$	590,888	$	781,870

		2018		2017
Amounts due in:				
Less than one year	$	200,000	$	200,000
One to five years		400,000		600,000
	$	600,000	$	800,000

The discount rate applied in determining the discount to net present value was 2.63 percent and 1.55 percent for the years ended June 30, 2018 and 2017, 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:

		2018		2017
Pledges receivable, before unamortized discount and allowance for uncollectible pledges	$	1,495,314	$	1,981,030
Less:				
Discount to net present value		(92,121)		(105,807)
Allowance for uncollectible pledges		(1,000)		(1,000)
Pledges receivable, net	$	1,402,193	$	1,874,223

		2018		2017
Amounts due in:				
Less than one year	$	382,858	$	520,716
One to five years		866,426		1,061,432
More than five years		451,686		398,882
	$	1,700,970	$	1,981,030

The discount rate applied in determining the discount to net present value was 2.63 percent and 1.55 percent for 2018 and 2017, respectively, which was the rate for the three-year Treasury securities during those years.

Pledges receivable totaling $246,030 were receivable from related parties, net of allowance for uncollectible pledges of $1,000 at June 30, 2018 and 2017. Related parties include trustees of the Foundation and entities owned by those trustees.

Note 4. Investments 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, 2018 and 2017 are invested 72 percent and 70 percent in equities, 25 percent and 27 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, 2018 and 2017, are invested 93 percent and 94 percent in fixed-income securities, 3 percent and 3 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, 2018, the Pool was considered a Level 3 investment. At June 30, 2018, the Pool invested 70 percent, 29 percent and 1 percent in fair value hierarchy Levels 1, 2 and 3, respectively. At June 30, 2017, the Pool was considered a Level 3 investment. At June 30, 2017, the Pool invested 64 percent, 36 percent and 0 percent in fair value hierarchy Levels 1, 2 and 3, respectively.

As of June 30, 2018 and 2017, the Foundation's fair value in the portion invested in the pools was $815,980 and $143,932, respectively, in the Balanced Pool and $801,469 and $638,709, 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. Investments in Pooled Funds (Continued)

Investment income for the years ended June 30 consisted of the following:

	2018	2017
Average annual return:		
Archdiocesan Balanced Pool	9.60%	12.70%
Archdiocesan Income Pool	1.60%	1.20%

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

	2018	2017
Interest and dividend income:		
Balanced Pool	$ 3,338	$ 3,382
Income Pool	11,391	9,329
Total interest and dividend income	14,729	12,711
Net realized and unrealized gain (loss):		
Balanced Pool	11,163	13,666
Income Pool	(1,403)	(653)
Total net realized and unrealized gain	9,760	13,013
Investment expenses	(2,549)	(2,573)
Total investment income, net	$ 21,940	$ 23,151

Note 5. Investments Held at CCFLA

CCFLA manages an investment fund (Balanced Pool Fund) whereby the underlying investments consist of U.S. 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 CCFLA during the fiscal year ended June 30, 2015. The Foundation's share of investments held at the CCFLA's Balanced Pool was $55,357,503 and $45,840,480 as of June 30, 2018 and 2017, respectively.

For the year ended June 30, 2018, the investments had net income of $3,635,602, consisting of interest and dividend income of $957,380, a realized and unrealized gain of $3,045,114, and investment expenses of $366,892.

For the year ended June 30, 2017, the investments had net income of $4,315,660, consisting of interest and dividend income of $720,028, a realized and unrealized gain of $3,897,229, and investment expenses of $301,597.

CCFLA 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 both June 30, 2018 and 2017, CCFLA invested 89 percent, 1 percent and 10 percent in fair value hierarchy Levels 1, 2 and 3, respectively.

Note 6. Other Investments

Other investments include the investment in Watson Land Company (470,051 and 501,523 shares owned in 2018 and 2017, respectively), 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, 2018 and 2017, 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 $181,557,139 and $159,358,933 at June 30, 2018 and 2017, respectively.

The unrealized gain on investment in Watson Land Company was $32,198,494 and $25,953,815 for the years ended June 30, 2018 and 2017, respectively, and represents the change in the fair value of the investment. Dividend income on Watson Land Company shares was $2,920,854 and $2,808,529 for the years ended June 30, 2018 and 2017, respectively. The Foundation's investment in Watson Land Company stock represented 75.9 percent and 77.1 percent of total investments at June 30, 2018 and 2017, 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, 2018 and 2017, the Foundation's unfunded capital commitment was $166,645. During the years ended June 30, 2018 and 2017, the Foundation did not make any cash contributions to Shea Ventures Opportunity Fund, LP. The Foundation received a capital distribution of $7,277 and $427,754 for the years ended June 30, 2018 and 2017, respectively. The investment had a net return of $28,242 and $122,580, of which $59,393 and $147,618 were from unrealized and realized gains for the years ended June 30, 2018 and 2017, 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, 2018 and 2017, 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 $610,914 and $589,950 at June 30, 2018 and 2017, 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 $61,533 and $193,030 at June 30, 2018 and 2017, 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.

Note 9. Irrevocable Deferred Gifts

The Foundation is the designated beneficiary of certain gift annuities. The fair value of these gift annuities totaled $205,656 and $0 during the years ended June 30, 2018 and 2017, respectively, and is included in the statements of financial position under other receivable. The Foundation received $37,787 and $80,785 from death payouts during the years ended June 30, 2018 and 2017, respectively.

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:

	2018	
	Temporarily Restricted	Permanently Restricted
Tuition awards program	$ 10,849,939	$ 18,929,819
Urban Peace and Racial Tolerance 1 and 2	153,380	-
	$ 11,003,319	$ 18,929,819

	2017	
	Temporarily Restricted	Permanently Restricted
Tuition awards program	$ 10,308,520	$ 18,929,819
Urban Peace and Racial Tolerance 1 and 2	143,932	-
	$ 10,452,452	$ 18,929,819

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.

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

Note 12. 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 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 $36,602 and $29,308 for the years ended June 30, 2018 and 2017, 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.

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, 2018 and 2017. For the years ended June 30, 2018 and 2017, the actual expenditures from endowment funds used in support of operations were $1,228,294 and $1,227,896, respectively.

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

	2018	2017
Investment held at CCFLA	$ 27,150,766	$ 26,201,305

Endowment net assets as of June 30 were as follows:

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Tuition awards program	$ -	$ 8,220,947	$ 18,929,819	$ 27,150,766
Total endowment funds	$ -	$ 8,220,947	$ 18,929,819	$ 27,150,766

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Tuition awards program	$ -	$ 7,271,486	$ 18,929,819	$ 26,201,305
Total endowment funds	$ -	$ 7,271,486	$ 18,929,819	$ 26,201,305

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

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

	2018			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 7,271,486	$ 18,929,819	$ 26,201,305
Investment return:				
Investment income	-	340,451	-	340,451
Net increase in realized and unrealized	-	1,837,304	-	1,837,304
Total investment return	-	2,177,755	-	2,177,755
Contributions	-	-	-	-
Appropriation of endowment funds for expenditure	-	(1,228,294)	-	(1,228,294)
Endowment net assets, end of year	$ -	$ 8,220,947	$ 18,929,819	$ 27,150,766

	2017			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ 5,583,512	$ 18,929,819	$ 24,513,331
Investment return:				
Investment income	-	280,455	-	280,455
Net decrease in realized and unrealized	-	2,635,415	-	2,635,415
Total investment return	-	2,915,870	-	2,915,870
Contributions	-	-	-	-
Appropriation of endowment funds for expenditure	-	(1,227,896)	-	(1,227,896)
Endowment net assets, end of year	$ -	$ 7,271,486	$ 18,929,819	$ 26,201,305

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

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, 2018 and 2017, 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, 2018 and 2017, were $7,133,238 and $9,375,672, respectively.