



Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Financial Report
June 30, 2016

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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, 2016 and 2015, 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; 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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

RSM US LLP

Los Angeles, California
December 19, 2016

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Financial Position
June 30, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets (Note 12)								
Cash	\$ -	\$ 151,068	\$ -	\$ 151,068	\$ 4,724	\$ 152,199	\$ -	\$ 156,923
Accounts receivable	-	21,589	-	21,589	-	2,000	-	2,000
Grants receivable, net (Note 2)	-	1,000,000	-	1,000,000	-	1,993,443	-	1,993,443
Pledges receivable, net (Note 3)	-	1,136,119	-	1,136,119	-	286,413	-	286,413
Investments in Pooled Funds (Note 4)	242,098	593,157	-	835,255	458,494	281,350	-	739,844
Investments held at CCFLA (Note 5)	18,653,556	5,583,512	18,929,819	43,166,887	27,117,451	7,123,923	18,899,752	53,141,126
Other investments (Note 6)	134,300,241	-	-	134,300,241	131,129,222	-	-	131,129,222
Prepaid expenses	1,400	-	-	1,400	1,400	-	-	1,400
Total assets	\$ 153,197,295	\$ 8,485,445	\$ 18,929,819	\$ 180,612,559	\$ 158,711,291	\$ 9,839,328	\$ 18,899,752	\$ 187,450,371
Liabilities and Net Assets (Note 12)								
Liabilities:								
Due to the Administrative Office (Note 7)	\$ 99,205	\$ -	\$ -	\$ 99,205	\$ 87,180	\$ -	\$ -	\$ 87,180
Funds held in trust	5,482,072	-	-	5,482,072	5,945,838	-	-	5,945,838
Program awards payable	9,787,493	-	-	9,787,493	10,769,693	-	-	10,769,693
Accounts payable and accrued expenses	42,858	-	-	42,858	42,698	1,382	-	44,080
Total liabilities	15,411,628	-	-	15,411,628	16,845,409	1,382	-	16,846,791
Commitments and contingencies (Notes 8, 9, 11 and 13)								
Net assets (Notes 10 and 14)	137,785,667	8,485,445	18,929,819	165,200,931	141,865,882	9,837,946	18,899,752	170,603,580
Total liabilities and net assets	\$ 153,197,295	\$ 8,485,445	\$ 18,929,819	\$ 180,612,559	\$ 158,711,291	\$ 9,839,328	\$ 18,899,752	\$ 187,450,371

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Activities
Years Ended June 30, 2016 and 2015

	2016				2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Donations (Note 9)	\$ -	\$ 4,501,158	\$ 30,067	\$ 4,531,225	\$ -	\$ 3,375,177	\$ 1,020,000	\$ 4,395,177
Grant revenue	-	6,557	-	6,557	-	13,070	-	13,070
Net Investment Pool income (Note 4)	2,102	1,955	-	4,057	299,321	527,604	-	826,925
Net investment loss on investments held at CCFLA (Note 5)	(641,805)	(374,837)	-	(1,016,642)	(18,513)	(15,046)	-	(33,559)
Dividend income from other investments (Note 6)	2,668,102	-	-	2,668,102	2,648,042	-	-	2,648,042
Unrealized gain on other investments (Note 6)	3,119,936	-	-	3,119,936	14,227,834	-	-	14,227,834
	5,148,335	4,134,833	30,067	9,313,235	17,156,684	3,900,805	1,020,000	22,077,489
Net assets released from restrictions:								
Satisfaction of program restrictions (Note 14)	5,487,334	(5,487,334)	-	-	7,219,493	(7,219,493)	-	-
Total revenues	10,635,669	(1,352,501)	30,067	9,313,235	24,376,177	(3,318,688)	1,020,000	22,077,489
Expenses:								
Tuition awards program	11,506,582	-	-	11,506,582	11,923,047	-	-	11,923,047
Tuition and other program awards	1,781,348	-	-	1,781,348	2,706,274	-	-	2,706,274
Total program expenses	13,287,930	-	-	13,287,930	14,629,321	-	-	14,629,321
Employee compensation and benefits (Note 13)	1,110,858	-	-	1,110,858	940,751	-	-	940,751
General operating expenses	153,944	-	-	153,944	239,687	-	-	239,687
Fundraising expenses	163,152	-	-	163,152	152,631	-	-	152,631
Total operating expenses	1,427,954	-	-	1,427,954	1,333,069	-	-	1,333,069
Total expenses	14,715,884	-	-	14,715,884	15,962,390	-	-	15,962,390
(Decrease) increase in net assets	(4,080,215)	(1,352,501)	30,067	(5,402,649)	8,413,787	(3,318,688)	1,020,000	6,115,099
Net assets, beginning 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
Net assets, end of year	\$ 137,785,667	\$ 8,485,445	\$ 18,929,819	\$ 165,200,931	\$ 141,865,882	\$ 9,837,946	\$ 18,899,752	\$ 170,603,580

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Cash Flows
Years Ended June 30, 2016 and 2015

	2016	2015
Cash flows from operating activities:		
(Decrease) increase in net assets	\$ (5,402,649)	\$ 6,115,099
Adjustments to reconcile (decrease) increase in net assets to net cash used in operating activities:		
Realized and unrealized loss (gain) on Investment Pool	5,771	(374,770)
Realized and unrealized loss on investments held at CCFLA	1,327,151	263,378
Unrealized gain on other investments	(3,119,936)	(14,227,834)
Change in grants receivable discounts	(6,557)	(13,070)
Change in pledges receivable discounts	9,044	(557)
Assets contributed for long-term investments	(30,067)	(1,020,000)
Increase in accounts receivable	(19,589)	(2,000)
Decrease in grants receivable	1,000,000	1,000,000
(Increase) decrease in pledges receivable	(858,750)	365,500
Increase in prepaid expenses	-	(1,400)
Increase (decrease) in due to the Administrative Office	12,025	(95,868)
Decrease in funds held in trust	(463,766)	(173,911)
(Decrease) increase in program awards payable	(982,200)	1,217,998
Decrease in accounts payable and accrued expenses	(1,222)	(5,384)
Net cash used in operating activities	(8,530,745)	(6,952,819)
Cash flows from investing activities:		
Additions to investments held at CCFLA	(1,430,158)	(2,120,000)
Additions to investment in pooled funds	(3,113,621)	(1,342,024)
Redemptions from investment in pooled funds	3,012,438	9,405,966
Additions to other investments	(65,000)	(73,202)
Redemptions from other investments	13,918	5,625
Redemptions from investments held at CCFLA	10,077,246	-
Net cash provided by investing activities	8,494,823	5,876,365
Cash flows from financing activities:		
Assets contributed for long-term investments	30,067	1,020,000
Net cash provided by financing activities	30,067	1,020,000
Net change in cash	(5,855)	(56,454)
Cash, beginning of year	156,923	213,377
Cash, end of year	<u>\$ 151,068</u>	<u>\$ 156,923</u>

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 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 0.71 percent and 1.01 percent for the fiscal years ended June 30, 2016 and 2015, 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 0.71 percent and 1.01 percent for the fiscal years ended June 30, 2016 and 2015, 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 held in CCFLA 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.

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)

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, 2016 or 2015.

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 12.09 percent and 12.69 percent of the award commitment in 2016 and 2015, respectively.

Concentration: The Foundation received \$2,000,000 from two donors and \$1,020,000 from one donor during the years ended June 30, 2016 and 2015, 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.

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 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.

Recently issued accounting pronouncements: Accounting Standards Update (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)*. This ASU 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*. This ASU 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.

Subsequent events: The Foundation has considered subsequent events through December 19, 2016, 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:

	2016	2015
Grants receivable	\$ 1,000,000	\$ 2,000,000
Less:		
Discount to net present value	-	(6,557)
Grants receivable, net	<u>\$ 1,000,000</u>	<u>\$ 1,993,443</u>
	2016	2015
Amounts due in:		
Less than one year	\$ 1,000,000	\$ 1,000,000
One to five years	-	1,000,000
	<u>\$ 1,000,000</u>	<u>\$ 2,000,000</u>

The discount rate applied in determining the discount to net present value was 1.01 percent for the year ended June 30, 2015, which was the rate for the three-year Treasury securities for that year. There was no discount rate applied for grants receivable as of December 31, 2016 since the amounts are due in less than one year.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 3. Pledges Receivable, Net

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

	2016	2015
Pledges receivable, before unamortized discount and allowance for uncollectible pledges	\$ 1,216,030	\$ 357,280
Less:		
Discount to net present value	(78,911)	(69,867)
Allowance for uncollectible pledges	(1,000)	(1,000)
Pledges receivable, net	<u>\$ 1,136,119</u>	<u>\$ 286,413</u>
	2016	2015
Amounts due in:		
Less than one year	\$ 235,000	\$ 41,250
One to five years	715,000	40,000
More than five years	266,030	276,030
	<u>\$ 1,216,030</u>	<u>\$ 357,280</u>

The discount rate applied in determining the discount to net present value was 0.71 percent and 1.01 percent for 2016 and 2015, respectively, which was the rate for the three-year Treasury securities during those years.

Pledges receivable totaling \$246,030 and \$260,030 were receivable from related parties, net of allowance for uncollectible pledges of \$1,000, at June 30, 2016 and 2015, respectively. 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, 2016 and 2015 are invested 68 percent and 67 percent in equities, 29 percent and 30 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, 2016 and 2015 are invested 84 percent and 88 percent in fixed-income securities, 4 percent and 6 percent in notes receivable, 11 percent and 5 percent in cash and cash equivalents, and 1 percent and 1 percent in other assets and investments, respectively.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 4. Investments in Pooled Funds (Continued)

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, 2016, the Pool was considered a Level 3 investment. At June 30, 2016, the Pool invested 54 percent, 41 percent and 5 percent in fair value hierarchy Levels 1, 2 and 3, respectively. At June 30, 2015, the Pool invested 55 percent, 39 percent and 6 percent in fair value hierarchy Levels 1, 2 and 3, respectively. For further information on the investments in the Investment Pool, see the separate Investment Pool financial statements.

As of June 30, 2016 and 2015, the Foundation's fair value in the portion invested in the pools was \$131,778 and \$136,186, respectively, in the Balanced Pool and \$703,477 and \$603,658, 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.

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

	2016	2015
Average annual return:		
Archdiocesan Balanced Pool	0.00%	2.10%
Archdiocesan Income Pool	0.90%	0.70%

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

Interest and dividend income:		
Balanced Pool	\$ 2,604	\$ 645,432
Income Pool	10,551	6,602
Total interest and dividend income	<u>13,155</u>	<u>652,034</u>
Net realized and unrealized (loss) gain:		
Balanced Pool	(2,153)	376,158
Income Pool	(3,618)	(1,388)
Total net realized and unrealized (loss) gain	<u>(5,771)</u>	<u>374,770</u>
Investment expenses	(3,327)	(199,879)
Total investment income, net	<u>\$ 4,057</u>	<u>\$ 826,925</u>

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 5. Investments Held at CCFLA

The 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 \$43,166,887 and \$53,141,126 as of June 30, 2016 and 2015, respectively.

The investments had a net loss of \$1,016,642 and \$33,559 for the years ended June 30, 2016 and 2015, respectively, consisting of interest and dividend income of \$722,371 and \$251,294, a realized and unrealized loss of \$1,327,151 and \$263,378, and investment expenses of \$411,862 and \$21,475, respectively.

The 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 June 30, 2016, the CCFLA invested 71 percent, 7 percent and 22 percent in fair value hierarchy Levels 1, 2 and 3, respectively. At June 30, 2015, the CCFLA invested 73 percent, 4 percent and 23 percent in fair value hierarchy Levels 1, 2 and 3, respectively. For further information on the investments held at the CCFLA, see the separate CCFLA financial statements.

Note 6. Other Investments

Other investments include the investment in Watson Land Company (501,523 shares owned in 2016 and 2015), 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, 2016 and 2015, 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 \$133,405,118 and \$130,395,980 at June 30, 2016 and 2015, respectively.

The unrealized gain on investment in Watson Land Company was \$3,009,138 and \$14,293,405 for the years ended June 30, 2016 and 2015, respectively, and represents the change in the fair value of the investment. Dividend income on Watson Land Company shares was \$2,668,102 and \$2,648,042 for the years ended June 30, 2016 and 2015, respectively. The Foundation's investment in Watson Land Company stock represented 74.8 percent and 70.5 percent of total investments at June 30, 2016 and 2015, 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, 2016 and 2015, the Foundation's unfunded capital commitment was \$166,645 and \$231,645, respectively. During the years ended June 30, 2016 and 2015, the Foundation made \$65,000 and \$73,200 in cash contributions to Shea Ventures Opportunity Fund, LP and received a capital distribution of \$13,917 and \$5,624 in the years ended June 30, 2016 and 2015, respectively. The investment had a net return of \$110,798 and (\$65,571), of which \$124,979 and (\$45,342) were from unrealized and realized gain (loss) for the years ended June 30, 2016 and 2015, respectively.

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Notes to Financial Statements

Note 6. Other Investments (Continued)

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, 2016 and 2015, 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 \$895,123 and \$733,242 at June 30, 2016 and 2015, 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 \$99,205 and \$87,180 at June 30, 2016 and 2015, 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 that are not reported in the accompanying statements of financial position. The principal amounts of these gift annuities totaled \$1,907,665 and \$1,957,665 during the years ended June 30, 2016 and 2015, 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 received \$13,063 from gift annuities during the year ended June 30, 2016. There were no gift annuities received during the year ended June 30, 2015.

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:

	2016	
	Temporarily Restricted	Permanently Restricted
Tuition awards program	\$ 8,353,667	\$ 18,929,819
Urban Peace and Racial Tolerance 1 and 2	131,778	-
	<u>\$ 8,485,445</u>	<u>\$ 18,929,819</u>

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 10. Net Assets (Continued)

	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>

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.

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 \$26,595 and \$21,748 for the years ended June 30, 2016 and 2015, respectively.

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Notes to Financial Statements

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.

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, 2016 and 2015. For the years ended June 30, 2016 and 2015, the actual expenditures from endowment funds used in support of operations were \$1,165,574 and \$1,044,331, respectively.

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

	<u>2016</u>	<u>2015</u>
Investment held at CCFLA	<u>\$ 24,513,331</u>	<u>\$ 26,023,675</u>

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Notes to Financial Statements

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

Endowment net assets as of June 30 were as follows:

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Donor-restricted endowment funds:				
Tuition awards program	\$ -	\$ 5,583,512	\$ 18,929,819	\$ 24,513,331
Total endowment funds	\$ -	\$ 5,583,512	\$ 18,929,819	\$ 24,513,331

	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	\$ -	\$ 7,123,923	\$ 18,899,752	\$ 26,023,675

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

	2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -	\$ 7,123,923	\$ 18,899,752	\$ 26,023,675
Investment return:				
Investment income	-	199,833	-	199,833
Net decrease in realized and unrealized		(574,670)	-	(574,670)
Total investment return	-	(374,837)	-	(374,837)
Contributions	-	-	30,067	30,067
Appropriation of endowment funds for expenditure	-	(1,165,574)	-	(1,165,574)
Endowment net assets, end of year	\$ -	\$ 5,583,512	\$ 18,929,819	\$ 24,513,331

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Notes to Financial Statements

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

	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

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, 2016 and 2015, 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, 2016 and 2015 were \$5,487,334 and \$7,219,493, respectively.