

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Financial Report
June 30, 2017

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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, 2017 and 2016, 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, 2017 and 2016, 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 28, 2017

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Financial Position
June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Assets (Note 12)								
Cash	\$ 100,497	\$ 40,824	\$ -	\$ 141,321	\$ -	\$ 151,068	\$ -	\$ 151,068
Accounts receivable	3,480	3,735	-	7,215	-	21,589	-	21,589
Grants receivable, net (Note 2)	-	781,870	-	781,870	-	1,000,000	-	1,000,000
Pledges receivable, net (Note 3)	-	1,874,223	-	1,874,223	-	1,136,119	-	1,136,119
Investments in pooled funds (Note 4)	302,326	480,315	-	782,641	242,098	593,157	-	835,255
Investments held at CCFLA (Note 5)	19,639,176	7,271,485	18,929,819	45,840,480	18,653,556	5,583,512	18,929,819	43,166,887
Other investments (Note 6)	159,948,883	-	-	159,948,883	134,300,241	-	-	134,300,241
Prepaid expenses	23,578	-	-	23,578	1,400	-	-	1,400
Total assets	\$ 180,017,940	\$ 10,452,452	\$ 18,929,819	\$ 209,400,211	\$ 153,197,295	\$ 8,485,445	\$ 18,929,819	\$ 180,612,559
Liabilities and Net Assets (Note 12)								
Liabilities:								
Due to the Administrative Office (Note 7)	\$ 193,030	\$ -	\$ -	\$ 193,030	\$ 99,205	\$ -	\$ -	\$ 99,205
Funds held in trust	6,021,118	-	-	6,021,118	5,482,072	-	-	5,482,072
Program awards payable	10,222,409	-	-	10,222,409	9,787,493	-	-	9,787,493
Accounts payable and accrued expenses	54,339	-	-	54,339	42,858	-	-	42,858
Total liabilities	16,490,896	-	-	16,490,896	15,411,628	-	-	15,411,628
Commitments and contingencies (Notes 8, 9, 11 and 13)								
Net assets (Notes 10 and 14)	163,527,044	10,452,452	18,929,819	192,909,315	137,785,667	8,485,445	18,929,819	165,200,931
Total liabilities and net assets	\$ 180,017,940	\$ 10,452,452	\$ 18,929,819	\$ 209,400,211	\$ 153,197,295	\$ 8,485,445	\$ 18,929,819	\$ 180,612,559

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Activities
Years Ended June 30, 2017 and 2016

	2017				2016			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues:								
Donations (Note 9)	\$ -	\$ 7,424,869	\$ -	\$ 7,424,869	\$ -	\$ 4,501,158	\$ 30,067	\$ 4,531,225
Grant revenue	-	981,870	-	981,870	-	6,557	-	6,557
Net Investment Pool income (Note 4)	3,081	20,070	-	23,151	2,102	1,955	-	4,057
Net investment income (loss) on investments held at CCFLA (Note 5)	1,399,790	2,915,870	-	4,315,660	(641,805)	(374,837)	-	(1,016,642)
Dividend income from other investments (Note 6)	2,808,529	-	-	2,808,529	2,668,102	-	-	2,668,102
Unrealized gain on other investments (Note 6)	26,076,395	-	-	26,076,395	3,119,936	-	-	3,119,936
	30,287,795	11,342,679	-	41,630,474	5,148,335	4,134,833	30,067	9,313,235
Net assets released from restrictions:								
Satisfaction of program restrictions (Note 14)	9,375,672	(9,375,672)	-	-	5,487,334	(5,487,334)	-	-
Total revenues	39,663,467	1,967,007	-	41,630,474	10,635,669	(1,352,501)	30,067	9,313,235
Expenses:								
Tuition awards program	11,552,467	-	-	11,552,467	11,506,582	-	-	11,506,582
Tuition and other program awards	704,603	-	-	704,603	1,781,348	-	-	1,781,348
Total program expenses	12,257,070	-	-	12,257,070	13,287,930	-	-	13,287,930
Employee compensation and benefits (Note 13)	1,230,438	-	-	1,230,438	1,110,858	-	-	1,110,858
General operating expenses	150,620	-	-	150,620	153,944	-	-	153,944
Fundraising expenses	283,962	-	-	283,962	163,152	-	-	163,152
Total operating expenses	1,665,020	-	-	1,665,020	1,427,954	-	-	1,427,954
Total expenses	13,922,090	-	-	13,922,090	14,715,884	-	-	14,715,884
Increase (decrease) in net assets	25,741,377	1,967,007	-	27,708,384	(4,080,215)	(1,352,501)	30,067	(5,402,649)
Net assets, beginning 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
Net assets, end 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

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Cash Flows
Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Increase (decrease) in net assets	\$ 27,708,384	\$ (5,402,649)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Realized and unrealized (gain) loss on Investment Pool	(13,013)	5,771
Realized and unrealized (gain) loss on investments held at CCFLA	(3,897,229)	1,327,151
Unrealized gain on other investments	(26,076,395)	(3,119,936)
Change in grants receivable discounts	18,130	(6,557)
Change in pledges receivable discounts	26,896	9,044
Assets contributed for long-term investments	-	(30,067)
Decrease (increase) in accounts receivable	14,374	(19,589)
Decrease in grants receivable	200,000	1,000,000
Increase in pledges receivable	(765,000)	(858,750)
Increase in prepaid expenses	(22,178)	-
Increase in due to the Administrative Office	93,825	12,025
Increase (decrease) in funds held in trust	539,046	(463,766)
Increase (decrease) in program awards payable	434,916	(982,200)
Increase (decrease) in accounts payable and accrued expenses	11,481	(1,222)
Net cash used in operating activities	(1,726,763)	(8,530,745)
Cash flows from investing activities:		
Additions to investments held at CCFLA	(739,612)	(1,430,158)
Redemptions from investments held at CCFLA	1,963,248	10,077,246
Additions to investment in pooled funds	(1,301,506)	(3,113,621)
Redemptions from investment in pooled funds	1,367,131	3,012,438
Additions to other investments	-	(65,000)
Redemptions from other investments	427,755	13,918
Net cash provided by investing activities	1,717,016	8,494,823
Cash flows from financing activities:		
Assets contributed for long-term investments	-	30,067
Net cash provided by financing activities	-	30,067
Net change in cash	(9,747)	(5,855)
Cash, beginning of year	151,068	156,923
Cash, end of year	\$ 141,321	\$ 151,068

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 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 1.55 percent and 0.71 percent for the fiscal years ended June 30, 2017 and 2016, 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 uncollectable by management are included in the allowance for uncollectable 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 1.55 percent and 0.71 percent for the fiscal years ended June 30, 2017 and 2016, 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.

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, 2017 or 2016.

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 uncollectable 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 10.82 percent and 12.09 percent of the award commitment in 2017 and 2016, respectively.

Concentration: The Foundation received \$5,000,000 from four donors and \$2,000,000 from two donors during the years ended June 30, 2017 and 2016, 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.

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)

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), 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 December 28, 2017, 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:

	2017	2016
Grants receivable	\$ 800,000	\$ 1,000,000
Less:		
Discount to net present value	(18,130)	-
Grants receivable, net	<u>\$ 781,870</u>	<u>\$ 1,000,000</u>
	2017	2016
Amounts due in:		
Less than one year	\$ 200,000	\$ 1,000,000
One to five years	600,000	-
	<u>\$ 800,000</u>	<u>\$ 1,000,000</u>

The discount rate applied in determining the discount to net present value was 1.55 percent for the year ended June 30, 2017, which was the rate for the three-year Treasury securities for that 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:

	2017	2016
Pledges receivable, before unamortized discount and allowance for uncollectable pledges	\$ 1,981,030	\$ 1,216,030
Less:		
Discount to net present value	(105,807)	(78,911)
Allowance for uncollectable pledges	(1,000)	(1,000)
Pledges receivable, net	<u>\$ 1,874,223</u>	<u>\$ 1,136,119</u>
	2017	2016
Amounts due in:		
Less than one year	\$ 520,716	\$ 235,000
One to five years	1,061,432	715,000
More than five years	398,882	266,030
	<u>\$ 1,981,030</u>	<u>\$ 1,216,030</u>

The discount rate applied in determining the discount to net present value was 1.55 percent and 0.71 percent for 2017 and 2016, 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 uncollectable pledges of \$1,000 at June 30, 2017 and 2016. 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, 2017 and 2016, are invested 70 percent and 68 percent in equities, 27 percent and 29 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, 2017 and 2016, are invested 94 percent and 84 percent in fixed-income securities, 3 percent and 4 percent in notes receivable, 2 percent and 11 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, 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. At June 30, 2016, the Pool invested 54 percent, 41 percent and 5 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, 2017 and 2016, the Foundation's fair value in the portion invested in the pools was \$143,932 and \$131,778, respectively, in the Balanced Pool and \$638,709 and \$703,477, 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:

	2017	2016
Average annual return:		
Archdiocesan Balanced Pool	12.70%	0.00%
Archdiocesan Income Pool	1.20%	0.90%

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

Interest and dividend income:		
Balanced Pool	\$ 3,382	\$ 2,604
Income Pool	9,329	10,551
Total interest and dividend income	<u>12,711</u>	<u>13,155</u>
Net realized and unrealized gain (loss):		
Balanced Pool	13,666	(2,153)
Income Pool	(653)	(3,618)
Total net realized and unrealized gain (loss)	<u>13,013</u>	<u>(5,771)</u>
Investment expenses	(2,573)	(3,327)
Total investment income, net	<u>\$ 23,151</u>	<u>\$ 4,057</u>

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 \$45,840,480 and \$43,166,887 as of June 30, 2017 and 2016, respectively.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 5. Investments Held at CCFLA (Continued)

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.

For the year ended June 30, 2016, the investments had net loss of \$1,016,642, consisting of interest and dividend income of \$722,371, a realized and unrealized loss of \$1,327,151, and investment expenses of \$411,862.

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, 2017, CCFLA invested 89 percent, 1 percent and 10 percent in fair value hierarchy Levels 1, 2 and 3, respectively. At June 30, 2016, CCFLA invested 71 percent, 7 percent and 22 percent in fair value hierarchy Levels 1, 2 and 3, respectively. For further information on the investments held at 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 2017 and 2016), 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, 2017 and 2016, 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 \$159,358,933 and \$133,405,118 at June 30, 2017 and 2016, respectively.

The unrealized gain on investment in Watson Land Company was \$25,953,815 and \$3,009,138 for the years ended June 30, 2017 and 2016, respectively, and represents the change in the fair value of the investment. Dividend income on Watson Land Company shares was \$2,808,529 and \$2,668,102 for the years ended June 30, 2017 and 2016, respectively. The Foundation's investment in Watson Land Company stock represented 77.1 percent and 74.8 percent of total investments at June 30, 2017 and 2016, 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, 2017 and 2016, the Foundation's unfunded capital commitment was \$166,645. During the years ended June 30, 2017 and 2016, the Foundation made \$0 and \$65,000 in cash contributions to Shea Ventures Opportunity Fund, LP, respectively. The Foundation received a capital distribution of \$427,754 and \$13,917 in the years ended June 30, 2017 and 2016, respectively. The investment had a net return of \$122,580 and \$110,798, of which \$147,618 and \$124,979 were from unrealized and realized gains for the years ended June 30, 2017 and 2016, 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, 2017 and 2016, 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 \$589,950 and \$895,123 at June 30, 2017 and 2016, respectively.

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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 \$193,030 and \$99,205 at June 30, 2017 and 2016, 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 \$1,725,000 and \$1,907,665 during the years ended June 30, 2017 and 2016, 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 \$80,785 and \$13,063 from gift annuities during the years ended June 30, 2017 and 2016, 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:

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

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Notes to Financial Statements

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.

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 \$29,308 and \$26,595 for the years ended June 30, 2017 and 2016, 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.

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Notes to Financial Statements

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

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, 2017 and 2016. For the years ended June 30, 2017 and 2016, the actual expenditures from endowment funds used in support of operations were \$1,227,896 and \$1,165,574, respectively.

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

	2017	2016
Investment held at CCFLA	<u>\$ 26,201,305</u>	<u>\$ 24,513,331</u>

Endowment net assets as of June 30 were as follows:

	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	<u>\$ -</u>	<u>\$ 7,271,486</u>	<u>\$ 18,929,819</u>	<u>\$ 26,201,305</u>

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

	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

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

	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 increase 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

	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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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, 2017 and 2016, 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, 2017 and 2016, were \$9,375,672 and \$5,487,334, respectively.

Note 15. Subsequent Events

On October 23, 2017, the Foundation transferred 31,472 shares of Watson Land Company stock at a share price of \$317.75 to the Pool in exchange for \$10,000,288 of cash. The cash was deposited into the Surplus Balanced Pool account held at CCFLA.