Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Financial Report
June 30, 2019

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Contents

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Independent Auditor's Report

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, 2019 and 2018, the related statements of activities, functional expenses 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, 2019 and 2018, 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.

Emphasis of Matter

As discussed in Note 1 to the financial statements, the Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles adopted Financial Accounting Standards Board Accounting Standards Update No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, during the year ended June 30, 2019. The adoption of the standard resulted in additional footnote disclosures and significant changes to the classification of net assets and disclosures related to net assets. The adoption was retrospectively applied to July 1, 2017, the earliest year presented. Our opinion is not modified with respect to this matter.

RSM US LLP

Los Angeles, California
January 24, 2020

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Financial Position
June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
Assets (Note 13)						
Cash	**$ 349,013**	**$ 50,060**	**$ 399,073**	$ 325,852	$ 58,368	$ 384,220
Accounts receivable	**29,400**	**-**	**29,400**	-	43,263	43,263
Grants receivable, net (Note 3)	**-**	**396,947**	**396,947**	-	590,888	590,888
Pledges receivable, net (Note 4)	**-**	**1,258,181**	**1,258,181**	-	1,402,193	1,402,193
Other receivable (Note 10)	**-**	**361,668**	**361,668**	-	205,656	205,656
Investments in pooled funds (Note 5)	**955,194**	**809,583**	**1,764,777**	1,135,444	482,005	1,617,449
Investments held at CCFLA (Note 6)	**25,643,040**	**27,655,950**	**53,298,990**	28,206,738	27,150,765	55,357,503
Other investments (Note 7)	**202,041,352**	**500,000**	**202,541,352**	182,168,053	-	182,168,053
Prepaid expenses	**-**	**-**	**-**	21,418	-	21,418
Total assets	**$ 229,017,999**	**$ 31,032,389**	**$ 260,050,388**	$ 211,857,505	$ 29,933,138	$ 241,790,643
Liabilities and Net Assets (Note 13)						
Liabilities:						
Due to the Administrative Office (Note 8)	**$ 98,109**	**$ -**	**$ 98,109**	$ 61,533	$ -	$ 61,533
Funds held in trust	**6,846,306**	**-**	**6,846,306**	7,087,780	-	7,087,780
Program awards payable	**11,739,619**	**-**	**11,739,619**	11,737,983	-	11,737,983
Accounts payable and accrued expenses	**40,808**	**-**	**40,808**	30,082	-	30,082
Total liabilities	**18,724,842**	**-**	**18,724,842**	18,917,378	-	18,917,378
Commitments and contingencies (Notes 9, 10, 12 and 14)						
Net assets (Notes 11 and 15)	**210,293,157**	**31,032,389**	**241,325,546**	192,940,127	29,933,138	222,873,265
Total liabilities and net assets	**$ 229,017,999**	**$ 31,032,389**	**$ 260,050,388**	$ 211,857,505	$ 29,933,138	$ 241,790,643

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Activities
Years Ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	**With Donor Restrictions**	**Total**	Without Donor Restrictions	With Donor Restrictions	Total
Revenues:						
Donations (Notes 4 and 10)	**$ 11,565**	**$ 6,276,266**	**$ 6,287,831**	$ -	$ 5,540,966	$ 5,540,966
Grant revenue	**-**	**6,059**	**6,059**	-	16,519	16,519
Investment return, net - Pool income	**2,305**	**23,251**	**25,556**	3,340	18,600	21,940
Investment return, net - Held at CCFLA (Note 6)	**1,126,600**	**1,759,315**	**2,885,915**	1,457,847	2,177,755	3,635,602
Investment return, net - Other investments (Note 7)	**23,305,228**	**-**	**23,305,228**	35,147,590	-	35,147,590
Net assets released from restrictions:					-	
Satisfaction of program restrictions (Note 11)	**7,117,674**	**(7,117,674)**	**-**	7,133,238	(7,133,238)	-
Total revenues	**31,563,372**	**947,217**	**32,510,589**	43,742,015	620,602	44,362,617
Expenses:						
Program related	**13,400,336**	**-**	**13,400,336**	13,538,421	-	13,538,421
General and administrative (Note 14)	**317,852**	**-**	**317,852**	425,445	-	425,445
Fundraising expenses	**492,154**	**-**	**492,154**	365,066	-	365,066
Total expenses	**14,210,342**	**-**	**14,210,342**	14,328,932	-	14,328,932
Increase in net assets from operating activities	**17,353,030**	**947,217**	**18,300,247**	29,413,083	620,602	30,033,685
Other changes:						
Change in value of beneficial interest in charitable gift annuity (Note 9)	**-**	**152,034**	**152,034**	-	(69,735)	(69,735)
Increase in net assets	**17,353,030**	**1,099,251**	**18,452,281**	29,413,083	550,867	29,963,950
Net assets, beginning of year	**192,940,127**	**29,933,138**	**222,873,265**	163,527,044	29,382,271	192,909,315
Net assets, end of year	**$ 210,293,157**	**$ 31,032,389**	**$ 241,325,546**	$ 192,940,127	$ 29,933,138	$ 222,873,265

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Functional Expenses
Years Ended June 30, 2019 and 2018

	2019				2018			
	Program	**General and Administrative**	**Fundraising**	**Total**	Program	General and Administrative	Fundraising	Total
Expenses:								
Salary and wages	**$ 316,769**	**$ 185,426**	**$ 270,413**	**$ 772,608**	$ 332,234	$ 282,544	$ 195,553	$ 810,331
Benefits (Note 14)	**55,310**	**30,673**	**44,031**	**130,014**	71,496	55,243	43,026	169,765
	372,079	**216,099**	**314,444**	**902,622**	403,730	337,787	238,579	980,096
Bank charges	**-**	**1,780**	**1,780**	**3,560**	-	1,331	1,331	2,662
Conferences/meetings	**-**	**11,854**	**2,964**	**14,818**	-	9,996	2,499	12,495
Consultant	**-**	**28,884**	**9,628**	**38,512**	-	24,578	8,193	32,771
Development/donor appreciation expense	**-**	**-**	**36,552**	**36,552**	-	-	32,200	32,200
Entertainment	**-**	**-**	**16,792**	**16,792**	-	-	18,359	18,359
Marketing/advertising	**-**	**-**	**6,665**	**6,665**	-	-	1,064	1,064
Miscellaneous	**-**	**1,499**	**-**	**1,499**	-	-	-	-
Office expense/supplies	**13,536**	**35,195**	**5,415**	**54,146**	12,536	32,593	5,014	50,143
Recruitment related	**-**	**-**	**61,599**	**61,599**	-	-	-	-
Subscriptions	**-**	**-**	**25,044**	**25,044**	-	-	48,247	48,247
Staff development	**2,205**	**4,410**	**2,205**	**8,820**	1,676	3,352	1,676	6,704
Travel expenses	**9,066**	**18,131**	**9,066**	**36,263**	7,904	15,808	7,904	31,616
Tuition awards program	**12,381,737**	**-**	**-**	**12,381,737**	12,533,117	-	-	12,533,117
Tuition and other program awards	**621,713**	**-**	**-**	**621,713**	579,458	-	-	579,458
	13,028,257	**101,753**	**177,710**	**13,307,720**	13,134,691	87,658	126,487	13,348,836
Total	**$ 13,400,336**	**$ 317,852**	**$ 492,154**	**$ 14,210,342**	$ 13,538,421	$ 425,445	$ 365,066	$ 14,328,932

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Cash Flows
Years Ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Increase in net assets	**$ 18,452,281**	$ 29,963,950
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Realized and unrealized gain on Investment Pool	**(8,894)**	(9,760)
Realized and unrealized gain on investments held at CCFLA	**(2,164,042)**	(3,045,114)
Unrealized gain on other investments	**(19,869,155)**	(32,226,736)
Increase in grants receivable discounts	**(6,060)**	(9,018)
Increase in pledges receivable discounts	**(8,846)**	(13,686)
Decrease (increase) in accounts receivable	**13,863**	(36,048)
Decrease in grants receivable	**200,000**	200,000
Decrease in pledges receivable	**152,858**	485,716
Increase in other receivable	**(156,012)**	(205,656)
Decrease in prepaid expenses	**21,418**	2,160
Increase (decrease) in due to the Administrative Office	**36,576**	(131,497)
(Decrease) increase in funds held in trust	**(241,474)**	1,066,662
Increase in program awards payable	**1,636**	1,515,574
Increase (decrease) in accounts payable and accrued expenses	**10,727**	(24,257)
Net cash used in operating activities	**(3,565,124)**	(2,467,710)
Cash flows from investing activities:		
Additions to investments held at CCFLA	**(3,639,351)**	(13,076,767)
Redemptions from investments held at CCFLA	**7,861,906**	6,604,858
Additions to investment in pooled funds	**(712,073)**	(2,705,152)
Redemptions from investment in pooled funds	**573,639**	1,880,104
Additions to other investments	**(555,294)**	-
Redemptions from other investments	**51,150**	10,007,566
Net cash provided by investing activities	**3,579,977**	2,710,609
Net change in cash	**14,853**	242,899
Cash, beginning of year	**384,220**	141,321
Cash, end of year	**$ 399,073**	$ 384,220

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 accompanying financial presentation of the Foundation follows Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, Financial Statements of Not-For-Profit Organizations. This standard provides guidance on reporting information regarding its financial position and changes in activities according to two classes of net assets determined by the existence or absence of donor-imposed restrictions as follows:

Net assets without donor restrictions: Net assets without donor restrictions represent the portion of net assets of the Foundation that is neither restricted by donor-imposed stipulations or time restrictions. Net assets without donor restrictions include expendable funds available to support operations.

Net assets with donor restrictions: Net assets with donor restrictions represent contributions and other inflows of assets whose use by the Foundation is limited by donor-imposed stipulations that require that they be held in perpetuity or whose use may expire by the passage of time or can be fulfilled and removed by actions of the Foundation pursuant to those donor stipulations. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are released to net assets without donor restrictions and are reported in the statement of activities as satisfaction of program and time restrictions. Net assets with donor restrictions also include funds not yet appropriated by the Board of Trustees (Board). These generally represent net investment return on endowment funds restricted in perpetuity, which are subject to prudent appropriation by the Board in accordance with provisions of California law. The donor-restricted endowment funds of the Foundation are invested at the Catholic Community Foundation of Los Angeles (CCFLA) (see Note 6).

Cash: The Foundation maintains its cash in bank deposit accounts, which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts. The Foundation believes it is not exposed to any significant credit risk on cash.

Pledges receivable: 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 1.71% and 2.63% for the fiscal years ended June 30, 2019 and 2018, respectively. The initial discounts and subsequent amortization of discounts are included within donation revenue in the respective net asset class. Conditional promises to give are not included in pledges receivable until the conditions are met.

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

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 without donor restrictions.

Grant revenue: Grant revenue and other 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 1.71% and 2.63% for the fiscal years ended June 30, 2019 and 2018, 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 net investment return based upon its allocation of the total return earned in invested equity and debt securities held by the Pool, including investment income, realized and unrealized gains and losses, and associated fees. Net investment return is reported in the statements of activities as increases or decreases in net assets without or with donor restrictions depending on the existence or absence of donor stipulations.

Investments held at CCFLA: The Foundation has investments in CCFLA (see Note 6). 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 net investment return based upon allocation of the total return earned in invested equity and debt securities held by CCFLA, including investment income, realized and unrealized gains and losses, and associated fees. Net investment return is reported in the statements of activities as increases or decreases in net assets without or with donor restrictions depending on the existence or absence of donor stipulations.

Other investments: The Foundation also has investments in Watson Land Company and Shea Ventures Opportunity Fund, LP (see Note 7), 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. Net investment return on other investments is reported in the statements of activities as increases or decreases in net assets without donor restrictions.

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 included in investments in pooled funds and investments held at 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 a trust liability 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.

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

Insurance: The Foundation is insured for various risks associated with the operations by an Archdiocesan self-insurance program of Archdiocesan participation in a captive mutual insurance company. The Administrative Office of the Roman Catholic Archdiocese of Los Angeles (the Administrative Office) assesses the Foundation with its portion of the estimated insurance expense. Claims currently payable by the Foundation, plus an estimated amount for incurred but not reported claims, have been accrued as Administrative Office liabilities.

Income taxes: The Foundation is exempt from federal income and California franchise taxes under Sections 501(c)(3) of the Internal Revenue Code and 23701(d) of the California Revenue and Taxation Code, respectively. Uncertain tax provisions, if any, are recorded in accordance with FASB ASC 740, Income Taxes (previously FASB Interpretation No. 48). FASB ASC 740 requires the recognition of a liability for tax positions taken that do not meet the more-likely-than-not standard that the position will be sustained upon examination by the taxing authorities. There is no liability for uncertain tax positions recorded at June 30, 2019 or 2018.

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 8.58% and 9.05% of the award commitment in 2019 and 2018, respectively.

Concentration: The Foundation received $3,000,000 from two donors in each of the years ended June 30, 2019 and 2018, 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.

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

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.

Private companies measured using net asset value (NAV) as a practical expedient are not categorized in within the fair value hierarchy.

While the Foundation believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date.

During the years ended June 30, 2019 and 2018, there were no changes in the Foundation's valuation techniques that had, or are expected to have, a material impact on its statements of financial position or changes in net assets. In addition, there were no transfers of assets between hierarchy categories during the years ended June 30, 2019 and 2018. The Foundation has various processes and controls in place to ensure that fair value is reasonably estimated.

Functional allocation of expenses: The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain general costs such as office expenses/supplies and travel expenses have been allocated among program-related and supporting functions based on an estimated percentage of benefit provided to that function.

Advertising: The Foundation expenses advertising costs as incurred. These expenses amount to $6,665 and $1,064 during the years ended June 30, 2019 and 2018, respectively.

Liquidity: In order to provide information about liquidity, assets are sequenced according to their nearness of conversion to cash and liabilities according to the nearness of their estimated maturity.

Recently issued accounting pronouncements: In June 2018, the FASB issued 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.* This ASU clarifies the guidance for reevaluating whether a transaction is reciprocal (i.e., an exchange transaction) or nonreciprocal (i.e., a contribution) and for distinguishing between conditional and unconditional contributions. The ASU also clarifies the guidance used by entities other than not-for-profits to identify and account for contributions made. The ASU has different effective dates for resource recipients and resource providers. Additionally, the ASU provides for earlier effective dates for public business entities. Where the Foundation is the resource recipient, the ASU is applicable to contributions received for annual periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted. The Foundation is currently evaluating the impact of the adoption of this ASU on the financial statements.

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

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash (a consensus of the FASB Emerging Issues Task Force)*, which provides guidance on the presentation of restricted cash or restricted cash equivalents in the statement of cash flows. ASU 2016-18 will be effective for the Foundation for fiscal years beginning after December 15, 2018. ASU 2016-18 must be applied using a retrospective transition method with early adoption permitted. The Foundation is currently evaluating the impact of the adoption of this ASU on the financial statements.

In August 2016, FASB issued ASU 2016-15, *Statement of Cash Flows (Topic 230) Classification of Certain Cash Receipts and Cash Payments*, which will make eight targeted changes to how cash receipts and cash payments are presented and classified in the statement of cash flows. ASU 2016-15 will be effective for fiscal years beginning after December 15, 2018, and will require the adoption on a retrospective basis unless it is impracticable to apply, in which case it would be required to apply the amendments prospectively as of the earliest date practicable. The Foundation is currently evaluating the impact of the adoption of this ASU on the financial statements.

In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in ASU 2016-02 supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. In November 2019, the FASB issued ASU 2019-10, making ASU 2016-02 effective for fiscal years beginning after December 15, 2020, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Foundation is currently evaluating the impact of this ASU on the financial statements and disclosures.

In January 2016, the FASB issued ASU 2016-01, *Financial Instruments—Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*, which updates certain aspects of recognition, measurement, presentation and disclosure of financial instruments. ASU 2016-01 will be effective for the Foundation for fiscal years beginning after December 15, 2018. The Foundation has elected to early adopt the amendment that no longer requires disclosure of fair value financial instruments that are not measured at fair value and as such, these disclosures are not included herein. The Foundation is currently evaluating the impact of the adoption of this ASU on the financial statements.

In May 2014, the FASB issued ASU 2014-09*, Revenue From Contracts With Customers (FASB ASC 606)*. This standard outlines a single comprehensive model for companies to use in accounting for revenues arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that revenues are recognized when a customer obtains control of a good or service. A customer obtains control when it has the ability to direct the use and obtain the benefits from the good or service. Transfer of control is not the same as transfer of risks and rewards as it is considered in current guidance. The Foundation will also need to apply new guidance to determine whether revenues should be recognized over time or at a point in time. The FASB issued ASU 2015-14 to defer the effective date of ASU 2014-09 for all entities by one year. This standard is effective for annual reporting periods beginning after December 15, 2018, using either of two methods: (a) retrospective to each prior reporting period presented with the option to elect certain practical expedients as defined within ASU 2014-09 or (b) retrospective with the cumulative effect of initially applying ASU 2014-09 recognized at the date of initial application and providing certain additional disclosures as defined in ASU 2014-09. The FASB also issued ASU 2016-10 and 2016-12, which make various changes to technical guidance included in ASU 2014-09. The Foundation is currently evaluating the impact of the pending adoption of ASU 2014-09 on the financial statements.

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

Recently adopted accounting pronouncements: During the year ended, June 30, 2019, the Foundation adopted ASU 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements for Not-for-Profit Entities*, which amends the requirements for financial statements and requires the Foundation to make reporting changes that affect the following:

- Net asset classifications and related disclosures
- Underwater donor-restricted endowments and related disclosures
- Additional disclosures useful in assessing liquidity within one year of the statement of financial position date
- New reporting requirements relating to disclosure of expenses
- Reporting of net investment return

The Foundation made changes to terminology and classification as described above, as well as additional or modified disclosures, particularly in Notes 2 and 11. Amounts previously reported as of and for the year ended June 30, 2018, have been reclassified on a retrospective basis to achieve consistent presentation. Amounts previously reported as permanently and temporarily net assets have been reclassified to be reported as with donor restrictions.

ASU 2018-13 *Fair Value Measurement (Topic 820), Disclosure Framework—Changes in the Disclosure Requirements for Fair Value Measurement,* modified the disclosure requirements on fair value measurements in Topic 820. The ASU removed the requirement to disclose the policy for the timing of transfers between levels, the valuation processes for Level 3 fair value measurements, the Level 3 reconciliation from opening balances to closing balances, and the changes in unrealized gains and losses of Level 3 fair value measurements held on the statement of financial position date. As a result of this adoption, modifications were made to the disclosure of the amount of and reason for transfers into and out of Level 3 of the fair value hierarchy and the amount of purchases and issues of Level 3 assets and liabilities. The Foundation has early adopted this ASU for the year ended June 30, 2019.

Note 2. Liquidity and Availability

The Foundation regularly monitors liquidity required to meet its operating needs. Management monitors the Foundation's bank accounts on a daily basis to ensure sufficient funds are available to cover checks written and wires sent. The executive director reviews all monthly investment statements and a comprehensive investment summary is prepared, reviewed by management, and is presented to the Foundation's Finance Committee and to the Board on a quarterly basis. Foundation management prepares a five-year rolling investment forecast, which differentiates liquid and illiquid assets, and presents it to the Foundation's Finance Committee and to the Board on a semi-annual basis. For purpose of analyzing the resources available to meet general expenditures, such as operating expenses, over a 12-month period, the Foundation considers all expenditures related to its ongoing activities. At June 30, 2019, the financial assets and liquidity resources available within one year for general expenditure comprised of the following:

Cash	$ 399,073
Accounts receivable	29,400
Grants receivable, net	396,947
Pledges receivable, net	1,258,181
Other receivable	361,668
Investments in pooled funds	1,764,777
Investments held at CCFLA	53,298,990
Other investments	202,541,352
Total financial assets	260,050,388
Less:	
Donor-restricted endowments	27,655,950
Restrictions by donor with time or purpose restrictions	3,376,438
Funds held in trust	6,846,306
	37,878,694
Add:	
Endowment appropriation under spending policy through June 30, 2019	1,274,788
Financial assets available to meet cash needs for general expenditures within one year	$ 223,446,482

Note 3. Grants Receivable, Net

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

	2019	2018
Grants receivable	$ 400,000	$ 600,000
Less:		
Discount to net present value	(3,052)	(9,112)
Grants receivable, net	$ 396,948	$ 590,888

Note 3. Grants Receivable, Net (Continued)

	2019	2018
Amounts due in:		
Less than one year	$ 200,000	$ 200,000
One to five years	200,000	400,000
	$ 400,000	$ 600,000

The discount rate applied in determining the discount to net present value was 1.71% and 2.63% for the years ended June 30, 2019 and 2018, respectively, which was the rate for the three-year Treasury securities for that year.

Note 4. Pledges Receivable, Net

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

	2019	2018
Pledges receivable, before unamortized discount and allowance for uncollectible pledges	$ 1,342,456	$ 1,495,314
Less:		
Discount to net present value	(83,275)	(92,121)
Allowance for uncollectible pledges	(1,000)	(1,000)
Pledges receivable, net	$ 1,258,181	$ 1,402,193

	2019	2018
Amounts due in:		
Less than one year	$ 392,858	$ 382,858
One to five years	703,568	866,426
More than five years	246,030	246,030
	$ 1,342,456	$ 1,495,314

The discount rate applied in determining the discount to net present value was 1.71% and 2.63% for 2019 and 2018, 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 both June 30, 2019 and 2018. Related parties include trustees of the Foundation and entities owned by those trustees.

Pledges received from two donors totaled $971,426 and $1,114,284 for the years ended June 30, 2019 and 2018, respectively.

Note 5. 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.

Balanced 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 both June 30, 2019 and 2018, are invested 72% in equities, 25% in fixed-income securities, 2% in cash and cash equivalents, and 1% in other assets and investments.

Income Pool: 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, 2019 and 2018, are invested 95% and 93% in fixed-income securities, 2% and 3% in notes receivable, 1% and 3% in cash and cash equivalents, and 2% and 1% 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, 2019 and 2018, the Pool was considered a Level 3 investment. At June 30, 2019, the Pool invested 71%, 26% and 1% in fair value hierarchy Levels 1, 2 and 3, respectively, and 2% was valued at net asset value as a practical expedient and 1% at cost. At June 30, 2018, the Pool invested 70%, 26% and 1% in fair value hierarchy Levels 1, 2 and 3, respectively, and 2% was valued at net asset value as a practical expedient and 1% at cost.

As of June 30, 2019 and 2018, the Foundation's fair value in the portion invested in the pools was $829,236 and $815,980, respectively, in the Balanced Pool and $935,541 and $801,469, 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 net investment return 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 6. Investments Held at CCFLA

CCFLA manages an investment fund (Balanced Pool Fund) whereby the underlying investments consist of U.S. equity securities (between 45% and 55%), international equities (15% to 25%) and U.S. fixed-income securities (25% to 35%). 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 $53,298,990 and $55,357,503 as of June 30, 2019 and 2018, respectively.

For the year ended June 30, 2019, the investments had a net income of $2,885,915, consisting of interest and dividend income of $1,076,646, a realized and unrealized gain of $2,164,041, and investment expenses of $354,772.

Note 6. Investments Held at CCFLA (Continued)

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.

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, 2019 and 2018, CCFLA invested 89%, 1% and 10% in fair value hierarchy Levels 1, 2 and 3, respectively.

Note 7. Other Investments

Other investments include the investment in Watson Land Company (470,051 shares owned in both 2019 and 2018), 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, 2019 and 2018, 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 $201,506,691 and $181,557,139 at June 30, 2019 and 2018, respectively. Net investment return from Watson Land was $23,305,228 and 35,119,348 for the years ended June 30, 2019 and 2018, 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.

The Foundation’s investment in Watson Land Company stock represented 75.8% and 75.9% of total investments at June 30, 2019 and 2018, 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 will continue until April 6, 2020, with no ability to redeem. The partnership’s term may be extended for up to two additional one-year periods at the discretion of the General Partner and for additional annual periods with the consent of a Majority in Interest of the Limited Partners, unless extended or terminated sooner under terms of the limited partnership agreement. The Foundation is a limited partner and has a funding commitment of $1,843,085 and $1,000,000 as of June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, the Foundation’s unfunded capital commitment was $251,847. At June 30, 2019 and 2018, the investment in Shea Ventures Opportunity Fund, LP was recorded at NAV as a practical expedient under ASC 820 with a value of $1,034,661 and $610,914 at June 30, 2019 and 2018, respectively.

Note 8. 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 $98,109 and $61,533 at June 30, 2019 and 2018, respectively. Additionally, the Foundation occupies office space at the Administrative Office, for which no rent is being charged to the Foundation.

Note 9. 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 10. Irrevocable Deferred Gifts

The Foundation is the designated beneficiary of certain gift annuities. The increase (decrease) in the fair value of these gift annuities was $152,034 and ($381,353) for the years ended June 30, 2019 and 2018, respectively, and is included in the statements of activities as change in value of beneficial interest in charitable gift annuity. The fair value of these gift annuities totaled $361,668 and $205,656 during the years ended June 30, 2019 and 2018, respectively, and is included in the statements of financial position under other receivable. The Foundation received $13,215 and $37,787 from death payouts during the years ended June 30, 2019 and 2018, respectively.

Note 11. Net Assets

Net assets with donor restrictions consist of the following at June 30:

	2019	2018
Subject to appropriation and expenditure when a specific event occurs:		
Tuition award programs	$ 1,200,738	$ 430,225
Urban Peace and Racial Tolerance 1 and 2	158,904	153,380
	1,359,642	583,605
Subject to the passage of time:		
Grants receivable, net	396,947	590,888
Pledges receivable, net	1,258,181	1,402,193
Other receivable	361,668	205,686
	2,016,796	2,198,767
Subject to the Foundation spending policy and appropriation:		
Investments in perpetuity (including original gifts totaling $18,929,819 as of June 30, 2019 and 2018), and the net investment return from which is expendable to support:		
Tuition award programs	27,655,951	27,150,766
	27,655,951	27,150,766
Total net assets with donor restrictions	$ 31,032,389	$ 29,933,138

Note 11. Net Assets (Continued)

Net assets were released from net assets with donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of the passage of time or other events specified by donors as follows for the year ended June 30:

	2019	2018
Tuition award programs	$ 7,112,618	$ 7,128,185
Urban Peace and Racial Tolerance 1 and 2	5,056	5,053
Total satisfaction of program and time restrictions	$ 7,117,674	$ 7,133,238

Note 12. 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 13. 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 or recorded at NAV.

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 14. Pension Plan

The Foundation participates in an Archdiocesan defined benefit pension plan covering substantially all full-time lay employees. Benefits are based upon an employee's years of service and compensation. The Administrative Office administers the pension plan and assesses the Foundation its portion of the annual estimated pension cost. The Archdiocese has partially funded the pension plan and has accrued liabilities for unfunded pension cost in the Administrative Office's financial statements in accordance with FASB ASC 715, Compensation Other—Retirement Benefits. Pension cost for the Foundation was $18,381 and $36,602 for the years ended June 30, 2019 and 2018, respectively.

Note 15. 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. 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 net assets with donor restrictions (a) the original value of gifts donated to the donor-restricted endowment, (b) the original value of subsequent gifts to the donor-restricted endowment and (c) accumulations to the donor-restricted endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The accumulated earnings on the donor-restricted endowment remains in net assets with donor restrictions until those amounts are appropriated for expenditure by the Board 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%; 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 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% for both of the fiscal years ended June 30, 2019 and 2018. For the years ended June 30, 2019 and 2018, the actual expenditures from endowment funds used in support of operations were $1,254,130 and $1,228,294, respectively.

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

	2019	2018
Investment held at CCFLA	$ 27,655,950	$ 27,150,765

Note 15. Endowment Funds and Net Asset Classification (Continued)

The following is a summary of endowment net asset composition by type of fund at June 30, 2019 and 2018:

	2019		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Tuition awards program	$ -	$ 27,655,950	$ 27,655,950
Total endowment funds	$ -	$ 27,655,950	$ 27,655,950

	2018		
	Without Donor Restrictions	With Donor Restrictions	Total
Donor-restricted endowment funds:			
Tuition awards program	$ -	$ 27,150,765	$ 27,150,765
Total endowment funds	$ -	$ 27,150,765	$ 27,150,765

	Without Donor Restrictions	With Donor Restrictions	Total
Net assets, at June 30, 2017	$ -	$ 26,201,305	$ 26,201,305
Investment return, net	-	2,177,755	2,177,555
Appropriation of endowment assets for expenditure	-	(1,228,295)	(1,228,295)
Net assets, at June 30, 2018	-	27,150,765	27,150,565
Investment return, net	-	1,759,315	1,759,315
Appropriation of endowment assets for expenditure	-	(1,254,130)	(1,254,130)
Net assets, at June 30, 2019	$ -	$ 27,655,950	$ 27,655,750

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 with donor restrictions and are the result of unfavorable market fluctuations. As of June 30, 2019 and 2018, no donor-restricted endowments fell below this required level.

The Foundation implemented an endowment spending policy equal to 5% of the average endowment balance at December 31 of the previous three years. This policy is intended to be sufficient to continue through times where market conditions may cause endowment balances to fall below required levels.

Note 16. Subsequent Events

The Foundation has considered subsequent events through January 24, 2020, the date the financial statements were available to be issued, in preparing the financial statements and notes thereto.