

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Financial Report
June 30, 2020

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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, 2020 and 2019, 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, 2020 and 2019, 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
January 7, 2021

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Financial Position
June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Assets						
Cash	\$ 339,004	\$ 57,233	\$ 396,237	\$ 349,013	\$ 50,060	\$ 399,073
Accounts receivable	-	-	-	29,400	-	29,400
Grants receivable, net (Note 3)	-	200,000	200,000	-	396,947	396,947
Pledges receivable, net (Note 4)	-	2,735,405	2,735,405	-	1,258,181	1,258,181
Split interest agreements (Note 5)	-	491,792	491,792	-	361,668	361,668
Investments in pooled funds (Note 6)	3,057,210	1,140,839	4,198,049	955,194	809,583	1,764,777
Investments held at CCFLA (Note 6)	21,218,500	27,590,051	48,808,551	25,643,040	27,655,950	53,298,990
Other investments (Note 6)	264,156,990	-	264,156,990	202,041,352	500,000	202,541,352
Total assets	\$ 288,771,704	\$ 32,215,320	\$ 320,987,024	\$ 229,017,999	\$ 31,032,389	\$ 260,050,388
Liabilities and Net Assets (Note 13)						
Liabilities:						
Accounts payable and accrued expenses	224,840	-	224,840	40,808	-	40,808
Due to the Administrative Office (Note 7)	93,857	-	93,857	98,109	-	98,109
Program awards payable	6,401,503	-	6,401,503	11,739,619	-	11,739,619
Funds held in trust	7,181,756	-	7,181,756	6,846,306	-	6,846,306
Total liabilities	13,901,956	-	13,901,956	18,724,842	-	18,724,842
Commitments and contingencies (Note 12)						
Net assets with donor restrictions	-	32,215,320	32,215,320	-	31,032,389	31,032,389
Net assets without donor restrictions	274,869,748	-	274,869,748	210,293,157	-	210,293,157
Net assets (Notes 9 and 11)	274,869,748	32,215,320	307,085,068	210,293,157	31,032,389	241,325,546
Total liabilities and net assets	\$ 288,771,704	\$ 32,215,320	\$ 320,987,024	\$ 229,017,999	\$ 31,032,389	\$ 260,050,388

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Activities

Years Ended June 30, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Program revenues:						
Donations (Note 4)	\$ 28,313	\$ 7,902,140	\$ 7,930,453	\$ 11,565	\$ 6,276,266	\$ 6,287,831
Grant revenue	-	3,053	3,053	-	6,059	6,059
Total revenues	28,313	7,905,193	7,933,505	11,565	6,282,325	6,293,890
Net assets released from restrictions	8,036,318	(8,036,318)	-	7,117,674	(7,117,674)	-
Total revenues and net assets released from restrictions	8,064,630	(131,125)	7,933,505	7,129,239	(835,349)	6,293,890
Program services:						
Tuition assistance	8,344,953	-	8,344,953	13,400,336	-	13,400,336
Supporting services:						
General and administrative	335,956	-	335,956	317,852	-	317,852
Fundraising expenses	617,322	-	617,322	492,154	-	492,154
Total supporting services	953,278	-	953,278	810,006	-	810,006
Total expenses	9,298,231	-	9,298,231	14,210,342	-	14,210,342
Increase in net assets before nonoperating activities and other changes	(1,233,601)	(131,125)	(1,364,726)	(7,081,103)	(835,349)	(7,916,452)
Nonoperating activities:						
Investment return, net - Pool income	23,748	17,648	41,395	2,305	23,251	25,556
Investment return, net - Held at CCFLA	828,841	1,194,135	2,022,976	1,126,600	1,759,315	2,885,915
Investment return, net - Other investments	64,957,603	-	64,957,603	23,305,228	-	23,305,228
Total nonoperating activities	65,810,192	1,211,782	67,021,974	24,434,133	1,782,566	26,216,699
Other changes:						
Change in value of beneficial interest in charitable gift annuity (Note 5)	-	102,274	102,274	-	152,034	152,034
Increase in net assets	64,576,591	1,182,931	65,759,522	17,353,030	1,099,251	18,452,281
Net assets, beginning of year	210,293,157	31,032,389	241,325,546	192,940,127	29,933,138	222,873,265
Net assets, end of year	\$ 274,869,748	\$ 32,215,320	\$ 307,085,068	\$ 210,293,157	\$ 31,032,389	\$ 241,325,546

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

**Statements of Functional Expenses
Years Ended June 30, 2020 and 2019**

	2020					2019				
	Program Services Tuition Assistance	General and Administrative	Fundraising	Total Supporting Services	Total	Program Services Tuition Assistance	General and Administrative	Fundraising	Total Supporting Services	Total
Expenses:										
Salary and wages	\$ 348,723	\$ 199,270	\$ 448,358	\$ 647,628	\$ 996,351	\$ 316,769	\$ 185,426	\$ 270,413	\$ 455,839	\$ 772,608
Benefits (Note 10)	74,329	42,518	95,705	138,223	212,552	55,310	30,673	44,031	74,704	130,014
	423,052	241,788	544,063	785,851	1,208,903	372,079	216,099	314,444	530,543	902,622
Tuition awards program	7,217,207	-	-	-	7,217,207	12,381,737	-	-	-	12,381,737
Tuition and other program awards	685,949	-	-	-	685,949	621,713	-	-	-	621,713
Bank charges	-	2,226	2,226	4,452	4,452	-	1,780	1,780	3,560	3,560
Conferences/meetings	-	4,323	1,081	5,403	5,403	-	11,854	2,964	14,818	14,818
Consultant	-	26,020	8,673	34,693	34,693	-	28,884	9,628	38,512	38,512
Development/donor appreciation expense	-	-	43,405	43,405	43,405	-	-	36,552	36,552	36,552
Entertainment	-	-	1,332	1,332	1,332	-	-	16,792	16,792	16,792
Marketing/advertising	-	-	2,147	2,147	2,147	-	-	6,665	6,665	6,665
Office expense/supplies	8,991	23,377	3,597	26,974	35,965	13,536	35,195	5,415	40,610	54,146
Recruitment related	-	-	-	-	-	-	-	61,599	61,599	61,599
Subscriptions	-	-	1,045	1,045	1,045	-	-	25,044	25,044	25,044
Staff development	2,152	4,305	2,152	6,457	8,609	2,205	4,410	2,205	6,615	8,820
Travel expenses	7,602	15,204	7,602	22,806	30,407	9,066	18,131	9,066	27,197	36,263
Miscellaneous	-	18,714	-	18,714	18,714	-	1,499	-	1,499	1,499
	7,921,901	94,168	73,259	167,427	8,089,328	13,028,257	101,753	177,710	279,463	13,307,720
Total	\$ 8,344,953	\$ 335,956	\$ 617,322	953,278	\$ 9,298,231	\$ 13,400,336	\$ 317,852	\$ 492,154	\$ 810,006	\$ 14,210,342

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Cash Flows
Years Ended June 30, 2020 and 2019

	2020	2019
Cash flows from operating activities:		
Increase in net assets	\$ 65,759,522	\$ 18,452,281
Adjustments to reconcile the increase in net assets to net cash used in operating activities:		
Realized and unrealized gains on Investment Pool	(27,011)	(8,894)
Realized and unrealized gains on investments held at CCFLA	(1,619,456)	(2,164,042)
Unrealized gains on other investments	(61,686,048)	(19,869,155)
Increase in grants receivable discounts	(3,053)	(6,060)
Increase in pledges receivable discounts	(4,728)	(8,846)
Change in the value of split interest agreements	(130,120)	(156,012)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	29,400	13,863
Decrease in grants receivable	200,000	200,000
(Increase) decrease in pledges receivable	(1,472,500)	152,858
Decrease in prepaid expenses	-	21,418
(Decrease) increase in due to the Administrative Office	(4,252)	36,576
Increase (decrease) in funds held in trust	335,450	(241,474)
(Decrease) increase in program awards payable	(5,338,116)	1,636
Increase in accounts payable and accrued expenses	184,032	10,727
Net cash used in operating activities	(3,776,880)	(3,565,124)
Cash flows from investing activities:		
Contributions to investments held at CCFLA	(1,048,583)	(3,639,351)
Withdrawals from investments held at CCFLA	7,158,481	7,861,906
Contributions to investment in pooled funds	(4,709,104)	(712,073)
Withdrawals from investment in pooled funds	2,302,840	573,639
Purchases of other investments	-	(555,294)
Sales from other investments	70,410	51,150
Net cash provided by investing activities	3,774,044	3,579,977
Net change in cash	(2,836)	14,853
Cash, beginning of year	399,073	384,220
Cash, end of year	\$ 396,237	\$ 399,073

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 within 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.

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 whose use by the Foundation is restricted 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. 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.

Cash and cash concentration: 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. The Foundation had \$814,382 and \$642,039 in cash that was not covered by Federal Deposit Insurance Corporation insurance at June 30, 2020 and 2019.

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 fair value interest rate applicable to the years in which the promises are given. Pledges were discounted using the rate at the fair value rate, which was 0.18% and 1.71% for the fiscal years ended June 30, 2020 and 2019, respectively. The initial discounts and subsequent amortization of discounts are included within donation revenue in the respective net asset class.

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.

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 unconditional promises to give are recorded when made by the donor. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the years in which the promises are received. This discount rate used is the risk-free interest rate on Treasury notes, which was 0.18% and 1.71% for the fiscal years ended June 30, 2020 and 2019, respectively. The discounts are included in grant revenue.

Investments in pooled funds: The Foundation has an investment in the Investment Pool (the Pool) of the Archdiocese, which is recorded at fair value (see Note 6). 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 Catholic Community Foundation Los Angeles: The Foundation has investments in Catholic Community Foundation Los Angeles (CCFLA) (see Note 6). These investments were transferred from the Archdiocesan Investment Pool to CCFLA on an agency basis. 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 has investments in Watson Land Company and Shea Ventures Opportunity Fund, LP (see Note 6), which are recorded at fair value. The fair value of Watson Land securities was based on a third-party appraisal at December 31, 2019, rolled forward by management to June 30, 2020, based on market returns of similar public companies and the return of the industrial REIT index. The fair value of the Shea Ventures Opportunity Fund is estimated based on net asset value per share. Net investment return on other investments is reported in the statements of activities as increases or decreases in net assets without donor restrictions.

Program awards payable: Includes tuition assistance and other donor-designated programs for students attending Archdiocesan elementary and high schools. The Foundation has made unconditional promises to give tuition assistance prior to year-end for the following academic year.

Funds held in trust: The Foundation receives and distributes assets under certain agency and intermediary arrangements. ASC 958-605-04, Transfers of Assets to a Not-for-Profit Entity or Charitable Trust that Raises or Holds Contributions for Others, establishes standards for transactions in which a recipient organization accepts a contribution from a donor and agrees to transfer those assets, the return of those assets, or both, to another entity that is specified by the donor. Funds held in trust represent assets that the Foundation holds and manages in an agency capacity. 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 account, with no amounts being recorded in the statements of activities.

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, 2020 and 2019.

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 makes estimates for the allowance for uncollectible pledges and attrition on program awards payable triggered by a decrease in student enrollment between the time the awards are promised and the time the awards are paid out. Attrition was estimated to be 8.18% and 8.58% of the award commitment for the years ended June 30, 2020 and 2019, respectively.

Concentration of revenue: The Foundation received \$4,800,000 and \$3,000,000, respectively, from three donors during the years ended June 30, 2020 and 2019, 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)

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

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. Expenses have been allocated among program-related and supporting services on an invoice by invoice basis on an estimated percentage of benefit provided to that function. Salaries and benefits expense was allocated based on the functional nature of each position.

Upcoming accounting pronouncement: In February 2016, the FASB issued Accounting Standards Update (ASU) 2016-02, *Leases (Topic 842)*. Under the new guidance, lessees are required to recognize a right of use asset 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 June 2020, ASU 2020-05, was issued deferring the implementation date of this standard to periods beginning after December 15, 2021. 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.

Reclassifications: Certain reclassifications have been made to the 2019 financial data to conform to the 2020 presentation.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

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, 2020 and 2019, the financial assets and liquidity resources available within one year for general expenditure comprised of the following:

	2020	2019
Cash	\$ 396,237	\$ 399,073
Accounts receivable	-	29,400
Grants receivable, net	200,000	396,947
Pledges receivable, net	2,735,405	1,258,181
Split interest agreements	491,792	361,668
Investments in pooled funds	4,198,049	1,764,777
Investments held at CCFLA	48,808,551	53,298,990
Other investments	264,156,990	202,541,352
Total financial assets	<u>320,987,024</u>	<u>260,050,388</u>
Less:		
Assets with donor restrictions	32,215,320	31,033,389
Other investments - alternative investments	264,156,990	202,541,352
Funds held in trust	7,181,756	6,846,306
	<u>303,554,066</u>	<u>240,421,047</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 17,432,958</u>	<u>\$ 19,629,341</u>

Note 3. Grants Receivable, Net

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

	2020	2019
Grants receivable	\$ 200,000	\$ 400,000
Less:		
Discount to net present value	-	(3,053)
Grants receivable, net	<u>\$ 200,000</u>	<u>\$ 396,947</u>

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 3. Grants Receivable, Net (Continued)

	2020	2019
Amounts due in:		
Less than one year	\$ 200,000	\$ 200,000
One to five years	-	200,000
	<u>\$ 200,000</u>	<u>\$ 400,000</u>

Note 4. Pledges Receivable, Net

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

	2020	2019
Pledges receivable, before unamortized discount and allowance for uncollectible pledges	\$ 2,814,952	\$ 1,342,456
Less:		
Discount to net present value	(78,547)	(83,275)
Allowance for uncollectible pledges	(1,000)	(1,000)
Pledges receivable, net	<u>\$ 2,735,405</u>	<u>\$ 1,258,181</u>

	2020	2019
Amounts due in:		
Less than one year	\$ 1,253,212	\$ 392,858
One to five years	1,295,710	703,568
More than five years	266,030	246,030
	<u>\$ 2,814,952</u>	<u>\$ 1,342,456</u>

Pledges receivable totaling \$246,030 as of both June 30, 2020 and 2019, were receivable from related parties, net of allowance, for uncollectible pledges of \$1,000 as of June 30, 2020 and 2019. Related parties include trustees of the Foundation and entities owned by those trustees.

Pledges received from two donors totaled \$3,150,000 and \$971,426 for the years ended June 30, 2020 and 2019, respectively.

Note 5. Split Interest Agreements

The Foundation has a beneficial interest in gift annuities. These assets are recorded at fair value on the statements of financial position and totaled \$491,792 and \$361,668 as of June 30, 2020 and 2019, respectively. The discount rate on these gift annuities range from 5.1% to 8.7%. The present value is based on the current mortality table published by the Society of Actuaries and approximates fair value.

Note 6. Investments

Investments in pooled funds: The Foundation participates in the Investment Pool of the Archdiocese. 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. The Pool has two separate pools: the Balanced Pool and the Income Pool.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 6. Investments (Continued)

The Balanced Pool was established for participants with long-term objectives of capital appreciation combined with capital preservation. The Income Pool was established to provide shorter-term objectives of current income with low risk of fluctuation in principal value.

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.

Investments Held at CCFLA: CCFLA manages an investment fund (Balanced Pool Fund) whereby the underlying investments consist of U.S. equity securities, international equities and U.S. fixed-income securities.

The investments in the Balanced Pool Fund is carried at fair value. Fair value is determined based on 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 Fund is 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 pool.

Other Investments: Other investments include the investment in Watson Land Company (470,051 shares owned as of both June 30, 2020 and 2019), which was donated to the Foundation in 1991. The fair value of Watson Land securities was based on a third-party appraisal as of December 31, 2019, rolled forward by management to June 30, 2020, based on market returns of similar public companies and the return of the industrial REIT index. The fair value of the Shea Ventures Opportunity Fund is estimated based on net asset value per share. Net investment return on other investments is reported in the statements of activities as increases or decreases in net assets without donor restrictions.

The Foundation's investment in Watson Land Company stock represented 82.8% and 78.2% of total investments at June 30, 2020 and 2019, 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, 2022. The Foundation is a Limited Partner and has a funding commitment of \$1,843,085 as of both June 30, 2020 and 2019. As of both June 30, 2020 and 2019, the Foundation's unfunded capital commitment was \$251,847. At June 30, 2020 and 2019, the investment in Shea Ventures Opportunity Fund, LP was recorded at NAV as a practical expedient under ASC 820.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 6. Investments (Continued)

The following tables set forth estimated fair values of assets measured and recorded on a recurring basis at June 30, 2020 and 2019:

Assets	Total	Investments Measured at NAV	Quoted Prices In Active Markets For Identical Assets (Level 1)	Quoted Prices For Similar Assets (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:					
Pooled investment at ADLA	\$ 4,198,049	\$ -	\$ -	\$ -	\$ 4,198,049
Investments held at CCFLA	48,808,551	-	-	-	48,808,551
Watson land securities	262,543,544	-	-	-	262,543,544
Alternative investments - Limited Partnership	1,613,446	1,613,446	-	-	-
Total investments	317,163,590	1,613,446	-	-	315,550,144
Split interest agreements	491,792	-	-	-	491,792
Total	\$ 317,655,382	\$ 1,613,446	\$ -	\$ -	\$ 316,041,936

Assets	Total	Investments Measured at NAV	Quoted Prices In Active Markets For Identical Assets (Level 1)	Quoted Prices For Similar Assets (Level 2)	Significant Unobservable Inputs (Level 3)
Investments:					
Pooled investment at ADLA	\$ 1,764,777	\$ -	\$ -	-	\$ 1,764,777
Investments held at CCFLA	53,298,990	-	-	-	53,298,990
Watson land securities	201,506,906	-	-	-	201,506,906
Alternative investments - Limited Partnership	1,034,446	1,034,446	-	-	-
Total investments	257,605,119	1,034,446	-	-	256,570,673
Split interest agreements	361,668	-	-	-	361,668
Total	\$ 257,966,787	\$ 1,034,446	\$ -	\$ -	\$ 256,932,341

The changes in the Foundations level 3 assets are as follows for the years ended June 30:

	2020			
	Pooled Investments at CCFLA	Pooled Investments at ADLA	Watson Land Securities	Split interest agreements
Contributions	\$ 1,048,583	\$ 4,709,104	\$ -	\$ -
Withdrawals	(7,158,481)	(2,032,841)	-	-
Transfers to Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 6. Investments (Continued)

	2019			
	Pooled Investments at CCFLA	Pooled Investments at ADLA	Watson Land Securities	Split interest agreements
Contributions	\$ 3,639,351	\$ 712,073	\$ -	\$ -
Withdrawals	(7,861,906)	(573,639)	-	-
Transfers to Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-

Note 7. Due to the Administrative Office

The Administrative Office of the Archdiocese 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 \$93,857 and \$98,109 at June 30, 2020 and 2019, respectively. Additionally, the Foundation occupies office space at the Administrative Office, for which no rent is being charged to the Foundation for the years ended June 30, 2020 or 2019.

Note 8. Revocable Living Trusts and Bequests

The Foundation has received certain pledges of net estate assets characterized as living trusts or bequests by will. As it is not practicable to determine a value for the gifts and bequests, and because the trusts are revocable at the discretion of the trustor, the aggregate value of these trusts is not reported on the accompanying statements of financial position.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 9. Net Assets

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

	2020	2019
Assets with purpose restrictions:		
Tuition award programs	\$ 1,037,638	\$ 1,200,738
Urban Peace and Racial Tolerance 1 and 2	160,436	158,905
	<u>1,198,074</u>	<u>1,359,643</u>
Subject to the passage of time:		
Grants receivable, net	200,000	396,947
Pledges receivable, net	2,735,405	1,258,181
Other receivable	491,792	361,668
	<u>3,427,197</u>	<u>2,016,796</u>
Subject to the Foundation spending policy and appropriation:		
Investments in perpetuity (including original gifts totaling \$18,929,819 as of June 30, 2020 and 2019), and the net investment return from which is expendable to support:		
Tuition award programs	27,590,049	27,655,950
Total net assets with donor restrictions	<u>\$ 32,215,320</u>	<u>\$ 31,032,389</u>

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:

	2020	2019
Tuition award programs	\$ 8,031,211	\$ 7,112,618
Urban Peace and Racial Tolerance 1 and 2	5,107	5,056
Net assets released from restrictions	<u>\$ 8,036,318</u>	<u>\$ 7,117,674</u>

Note 10. 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 \$33,825 and \$18,381 for the years ended June 30, 2020 and 2019, respectively, and was recorded as benefits expense on the statements of functional expenses.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 11. 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. There are no board designated endowment funds for the year ended June 30, 2020 or 2019.

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. Endowment assets are invested in the CCFLA investment pool which has a long term strategy.

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, 2020 and 2019. For the years ended June 30, 2020 and 2019, the actual expenditures from endowment funds used in support of operations were \$1,256,795 and \$1,254,130, respectively.

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

	2020	2019
	With Donor Restrictions	With Donor Restrictions
Donor-restricted endowment funds:		
Tuition awards program	\$ 27,590,049	\$ 27,655,950

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 11. Endowment Funds and Net Asset Classification (Continued)

	2020	2019
	With Donor Restrictions	With Donor Restrictions
Endowment funds, beginning of the year	\$ 27,655,950	\$ 27,150,765
Contributions	-	-
Investment return, net	1,190,894	1,759,315
Appropriation of endowment assets for expenditure	(1,256,795)	(1,254,130)
Endowment funds, end of the year	<u>\$ 27,590,049</u>	<u>\$ 27,655,950</u>

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, 2020 and 2019, 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 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.

COVID-19 impact: In March 2020, the World Health Organization declared the novel coronavirus (COVID-19) outbreak a public health emergency. There have been federal, state and local mandates requiring forced closures or partial closures for businesses and schools. While the operations of the schools that the Foundation provides assistance to have been altered to provide learning remotely, the revenues of the Foundation have not been significantly affected to date. The Foundation's face-to-face application process had to be cancelled due to COVID-19 and all applications had to be mailed in with proof of income. This added an additional burden to processing applications and delayed the process. In addition, families had difficulty getting notarized statements for cash income, as well as other proof of reduction of income (i.e., unemployment and disability due to loss of jobs due to COVID-19). As a result of these operational changes, the Foundation's Fall 2021 tuition awards were delayed from April to August and, thus, these awards were not accrued on the June 30, 2020, financial statements, causing expenses to be significantly less. Management of the Foundation believe this will be a one-year situation and three semesters of awards will be recorded in fiscal year 2021 as a result of this delay. Any future impacts are not known at this time.

Note 13. Subsequent Events

The Foundation has considered subsequent events through January 7, 2021, the date the financial statements were available to be issued, in preparing the financial statements and notes thereto.