

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Financial Report
June 30, 2021

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Independent Auditor's Report

RSM US LLP

His Excellency
José H. Gomez
Archbishop of Los Angeles

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, 2021 and 2020, 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, 2021 and 2020, 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

Irvine, California
February 23, 2022

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Financial Position

June 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Assets						
Cash	\$ 792,124	\$ 469,034	\$ 1,261,158	\$ 339,004	\$ 57,233	\$ 396,237
Grants receivable, net	-	-	-	-	200,000	200,000
Pledges receivable, net (Note 3)	-	51,952,921	51,952,921	-	2,735,405	2,735,405
Split interest agreements (Note 4)	-	529,984	529,984	-	491,792	491,792
Investments in pooled funds (Note 5)	3,431,229	1,601,877	5,033,106	3,057,210	1,140,839	4,198,049
Investments held at CCFLA (Note 5)	25,375,163	33,216,294	58,591,457	21,218,500	27,590,051	48,808,551
Other investments (Note 5)	339,638,220	-	339,638,220	264,156,990	-	264,156,990
Total assets	\$ 369,236,736	\$ 87,770,110	\$ 457,006,846	\$ 288,771,704	\$ 32,215,320	\$ 320,987,024
Liabilities and Net Assets						
Liabilities:						
Accounts payable and accrued expenses	\$ 319,457	\$ -	\$ 319,457	\$ 224,840	\$ -	\$ 224,840
Due to the Administrative Office (Note 6)	509,400	-	509,400	93,857	-	93,857
Program awards payable	10,059,508	-	10,059,508	6,401,503	-	6,401,503
Funds held in trust	9,834,587	-	9,834,587	7,181,756	-	7,181,756
Total liabilities	20,722,952	-	20,722,952	13,901,956	-	13,901,956
Commitments and contingencies (Note 11)						
Net assets:						
Net assets with donor restrictions	-	87,770,110	87,770,110	-	32,215,320	32,215,320
Net assets without donor restrictions	348,513,784	-	348,513,784	274,869,748	-	274,869,748
Net assets (Notes 8 and 10)	348,513,784	87,770,110	436,283,894	274,869,748	32,215,320	307,085,068
Total liabilities and net assets	\$ 369,236,736	\$ 87,770,110	\$ 457,006,846	\$ 288,771,704	\$ 32,215,320	\$ 320,987,024

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Activities Years Ended June 30, 2021 and 2020

	2021			2020		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Program revenues:						
Donations	\$ 44,099	\$ 56,112,996	\$ 56,157,095	\$ 28,312	\$ 7,902,140	\$ 7,930,452
Grant revenue	-	-	-	-	3,053	3,053
Total revenues	44,099	56,112,996	56,157,095	28,312	7,905,193	7,933,505
Net assets released from restrictions (Note 8)	7,521,951	(7,521,951)	-	8,036,318	(8,036,318)	-
Total revenues and net assets released from restrictions	7,566,050	48,591,045	56,157,095	8,064,630	(131,125)	7,933,505
Program services:						
Tuition assistance	18,127,719	-	18,127,719	8,344,953	-	8,344,953
Supporting services:						
General and administrative	292,248	-	292,248	335,956	-	335,956
Fundraising expenses	600,110	-	600,110	617,322	-	617,322
Total supporting services	892,358	-	892,358	953,278	-	953,278
Total expenses	19,020,077	-	19,020,077	9,298,231	-	9,298,231
Increase (decrease) in net assets before nonoperating activities and other changes	(11,454,027)	48,591,045	37,137,018	(1,233,601)	(131,125)	(1,364,726)
Nonoperating activities:						
Investment return, net - Pool income	23,575	-	23,575	23,748	17,647	41,395
Investment return, net - Held at CCFLA	3,859,998	6,946,648	10,806,646	828,841	1,194,135	2,022,976
Investment return, net - Other investments	81,214,490	-	81,214,490	64,957,603	-	64,957,603
Total nonoperating activities	85,098,063	6,946,648	92,044,711	65,810,192	1,211,782	67,021,974
Other changes:						
Change in value of beneficial interest in charitable gift annuity (Note 4)	-	17,097	17,097	-	102,274	102,274
Increase in net assets	73,644,036	55,554,790	129,198,826	64,576,591	1,182,931	65,759,522
Net assets, beginning of year	274,869,748	32,215,320	307,085,068	210,293,157	31,032,389	241,325,546
Net assets, end of year	\$ 348,513,784	\$ 87,770,110	\$ 436,283,894	\$ 274,869,748	\$ 32,215,320	\$ 307,085,068

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Functional Expenses
Years Ended June 30, 2021 and 2020

	2021					2020				
	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	\$ 434,001	\$ 184,451	\$ 466,552	\$ 651,003	\$ 1,085,004	\$ 348,723	\$ 199,270	\$ 448,358	\$ 647,628	\$ 996,351
Benefits	93,074	39,676	100,557	140,233	233,307	74,329	42,518	95,705	138,223	212,552
	<u>527,075</u>	<u>224,127</u>	<u>567,109</u>	<u>791,236</u>	<u>1,318,311</u>	<u>423,052</u>	<u>241,788</u>	<u>544,063</u>	<u>785,851</u>	<u>1,208,903</u>
										-
Tuition awards program	15,822,413	-	-	-	15,822,413	7,217,207	-	-	-	7,217,207
Tuition and other program awards	1,765,113	-	-	-	1,765,113	685,949	-	-	-	685,949
Bank charges	-	2,330	2,330	4,660	4,660	-	2,226	2,226	4,452	4,452
Conferences/meetings	-	138	35	173	173	-	4,322	1,081	5,403	5,403
Consultant	-	33,182	11,061	44,243	44,243	-	26,020	8,673	34,693	34,693
Development/donor appreciation expense	-	-	8,663	8,663	8,663	-	-	43,405	43,405	43,405
Entertainment	-	-	1,189	1,189	1,189	-	-	1,332	1,332	1,332
Marketing/advertising	-	-	900	900	900	-	-	2,147	2,147	2,147
Office expense/supplies	9,578	24,813	3,921	28,734	38,312	8,991	23,377	3,597	26,974	35,965
Subscriptions	-	-	1,362	1,362	1,362	-	-	1,045	1,045	1,045
Staff development	102	204	102	306	408	2,152	4,305	2,152	6,457	8,609
Travel expenses	3,438	6,876	3,438	10,314	13,752	7,602	15,204	7,601	22,805	30,407
Miscellaneous	-	578	-	578	578	-	18,714	-	18,714	18,714
	<u>17,600,644</u>	<u>68,121</u>	<u>33,001</u>	<u>101,122</u>	<u>17,701,766</u>	<u>7,921,901</u>	<u>94,168</u>	<u>73,259</u>	<u>167,427</u>	<u>8,089,328</u>
										-
Total	<u>\$ 18,127,719</u>	<u>\$ 292,248</u>	<u>\$ 600,110</u>	<u>\$ 892,358</u>	<u>\$ 19,020,077</u>	<u>\$ 8,344,953</u>	<u>\$ 335,956</u>	<u>\$ 617,322</u>	<u>\$ 953,278</u>	<u>\$ 9,298,231</u>

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Statements of Cash Flows
Years Ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Increase in net assets	\$ 129,198,826	\$ 65,759,522
Adjustments to reconcile the increase in net assets to net cash used in operating activities:		
Realized and unrealized gains on Investment Pool	(237,701)	(27,011)
Realized and unrealized gains on investments held at CCFLA	(11,869,356)	(1,619,456)
Unrealized gains on other investments	(75,592,679)	(61,686,048)
Assets contributed for endowment	(270,438)	-
Increase in grants receivable discounts	-	(3,053)
Decrease (increase) in pledges receivable discounts	750,337	(4,728)
Change in the value of split interest agreements	(38,192)	(130,120)
Changes in operating assets and liabilities:		
Decrease in accounts receivable	-	29,400
Decrease in grants receivable	200,000	200,000
Increase in pledges receivable	(49,967,853)	(1,472,500)
(Decrease) increase in due to the Administrative Office	415,543	(4,252)
Increase in funds held in trust	2,652,831	335,450
(Decrease) increase in program awards payable	3,658,005	(5,338,116)
Increase in accounts payable and accrued expenses	94,617	184,032
Net cash used in operating activities	(1,006,060)	(3,776,880)
Cash flows from investing activities:		
Contributions to investments held at CCFLA	(828,421)	(1,048,583)
Withdrawals from investments held at CCFLA	2,914,871	7,158,481
Contributions to investment in pooled funds	(2,289,482)	(4,709,104)
Withdrawals from investment in pooled funds	1,692,126	2,302,840
Capital distributions from other investments	111,449	70,410
Net cash provided by investing activities	1,600,543	3,774,044
Cash flows from financing activities:		
Assets contributed for endowments	270,438	-
Net cash provided by financing activities	270,438	-
Net increase (decrease) in cash	864,921	(2,836)
Cash, beginning of year	396,237	399,073
Cash, end of year	<u>\$ 1,261,158</u>	<u>\$ 396,237</u>

See notes to financial statements.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 1. Nature of Organization and Summary of Significant Accounting Policies

Nature of organization: The Catholic Education Foundation (the Foundation) of the Roman Catholic Archdiocese of Los Angeles (the Archdiocese) was formed in 1987 as a trust for charitable purposes. It continues to have a primary mission to provide tuition assistance to the most financially deserving students attending Parish elementary schools 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 are as follows:

Basis of accounting: The financial statements of the Foundation have been prepared on the accrual basis of accounting in accordance with Generally Accepted Accounting Principles (GAAP) in the United States of America issued by the Financial Accounting Standards Board (FASB).

Basis of presentation: The accompanying financial presentation of the FASB Accounting Standards Codification (ASC) 958, Presentation of Financial Statements of Not-For-Profit Entities. 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. The Foundation records all contributions with donor restrictions as net assets with donor restrictions and then net assets released from restrictions when spent on the purpose intended by the donor or when the passage of time has been met.

Cash and cash concentration: The Foundation maintains its cash in a bank deposit account, which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such account. The Foundation believes it is not exposed to any significant credit risk on cash. The Foundation had \$1,024,467 and \$ 814,382 in cash that was not covered by Federal Deposit Insurance Corporation (FDIC) insurance as of June 30, 2021, and 2020, respectively.

Pledges receivable: In accordance with FASB ASC 958, Financial Statements of Not-for-Profit Organizations, unconditional promises to give that are expected to be collected within one year are recorded at the 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 rate applicable to the years in which the promises are received. The discount rates ranged from 0.18% to 6.65%, for each of the years ended June 30, 2021, and 2020. The discounts are netted against donation revenue. Conditional promises to give are not included in pledges receivable until the conditions are met. Pledges deemed uncollectible by management are included in the allowance for uncollectible pledges.

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 0.46% and 0.18% for the fiscal years ended June 30, 2021, and 2020, 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 5). 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 5). 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 5), which are recorded at fair value. The fair value of Watson Land securities was based on a third-party appraisal on December 31, rolled forward by management to the following June 30, 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 with 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. 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 are no liabilities for uncertain tax positions recorded as of June 30, 2021.

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 9.61% and 8.18% of the award commitment for the years ended June 30, 2021, and 2020, respectively.

Concentration of revenue: The Foundation received \$52,459,500 from one donor that comprised 93% of the Foundation revenue for the year ended June 30, 2021 and \$4,800,000 from three donors that comprised 59% of the donation revenue for the year ended June 30, 2020.

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)*. 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 June 2020, FASB issued ASU 2020-05, *Revenue from Contracts with Customers and Leases*. The FASB deferred the effective date of this standard to periods beginning after December 15, 2021 (fiscal year-end June 30, 2023). A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered in to after, the beginning of the earliest comparative period presented in the financial statements, with certain practical expedients available. The Catholic Education Foundation is currently evaluating the impact of this ASU on the financial statements and disclosures.

ASU 2020-07, *Not for Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Non-Financial Assets*, is effective for fiscal year ended June 30, 2022. It requires contributed non-financial assets to be reported separately on the statement of activities from contributions of cash and other financial assets. It also requires additional disclosures on qualitative information about whether the assets were monetized or utilized during the reporting period. If utilized, a description of the programs or activities in which those assets were used. It also requires information on how any donor-imposed restrictions associated with these assets and how fair value was determined at initial recognition. The Catholic Education Foundation is currently evaluating the effect of this standard on the financial statements and disclosures.

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 daily 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, 2021 and 2020, the financial assets and liquidity resources available within one year for general expenditure comprised of the following:

	2021	2020
Cash	\$ 1,261,158	\$ 396,237
Grants receivable, net	-	200,000
Pledges receivable, net	51,952,921	2,735,405
Split interest agreements	529,984	491,792
Investments in pooled funds	5,033,106	4,198,049
Investments held at CCFLA	58,591,457	48,808,551
Other investments	339,638,220	264,156,990
Total financial assets	457,006,846	320,987,024
Less:		
Assets with donor restrictions	87,770,110	32,215,320
Other investments - alternative investments	339,638,220	264,156,990
Funds held in trust	9,834,587	7,181,756
	437,242,917	303,554,066
Financial assets available to meet cash needs for general expenditures within one year	\$ 19,763,929	\$ 17,432,958

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 3. Pledges Receivable, Net

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

	2021	2020
Pledges receivable, before unamortized discount and allowance for uncollectible pledges	\$ 52,782,805	\$ 2,814,952
Less:		
Discount to net present value	(828,884)	(78,547)
Allowance for uncollectible pledges	(1,000)	(1,000)
Pledges receivable, net	<u>\$ 51,952,921</u>	<u>\$ 2,735,405</u>
	2021	2020
Amounts due in:		
Less than one year	\$ 10,840,524	\$ 1,253,212
One to five years	41,676,250	1,295,710
More than five years	266,031	266,030
	<u>\$ 52,782,805</u>	<u>\$ 2,814,952</u>

Pledges receivable totaling \$266,030 and 246,030 as of June 30, 2021, and 2020, respectively were receivable from related parties, net of allowance, for uncollectible pledges of \$1,000 as of June 30, 2021, and 2020. Related parties include trustees of the Foundation and entities owned by those trustees.

Pledges received from two donors totaled \$ 51,000,000 and \$ 3,150,000 for the years ended June 30, 2021, and 2020, respectively. The Foundation received one of the two pledges during the year ended June 30, 2021, as an anonymous gift in the amount of \$50,000,000 to provide financial support to new elementary and high school students enrolling in an Archdiocesan school in Los Angeles, Ventura and Santa Barbara counties. The gift will be paid over a term of five years.

Note 4. 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 \$529,984 and \$491,792 as of June 30, 2021 and 2020, respectively. The discount rate on these gift annuities ranges from 0.4% to 7.8% for the years ended June 30, 2021 and 2020. The present value is based on the current mortality table published by the Society of Actuaries and approximates fair value.

Note 5. Investments

Investments in pooled funds: The Foundation participates in the Investment Pool of the Archdiocese (ADLA). 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.

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.

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 5. Investments (Continued)

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 are 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, 2021, and 2020), 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 rolled forward by management to the following June 30 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 83.9% and 82.8% of total investments on June 30, 2021, and 2020, respectively, and therefore presents a concentration of credit risk.

On April 6, 2010, the Foundation entered 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, 2024. The Foundation is a Limited Partner and has a funding commitment of \$1,843,085 as of both June 30, 2021, and 2020. At June 30, 2021 and 2020, the investment in Shea Ventures Opportunity Fund, LP was recorded at NAV as a practical expedient under ASC 820. The following table represents the unfunded commitments and liquidity and redemption restrictions on the financial instruments held at net asset value above:

2021	Fair value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited partnership	\$ 1,485,669	251,847	Withdrawals not permitted	N/A
2020	Fair value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Limited partnership	\$ 1,613,446	251,847	Withdrawals not permitted	N/A

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Notes to Financial Statements

Note 5. Investments (Continued)

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

		2021			
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	\$ 5,033,106	\$ -	\$ -	\$ -	\$ 5,033,106
Investments held at CCFLA	58,591,457	-	-	-	58,591,457
Watson land securities	338,152,551	-	-	-	338,152,551
Alternative investments - Limited Partnership	1,485,669	1,485,669	-	-	-
Total investments	403,262,783	1,485,669	-	-	401,777,114
Split interest agreements	529,984	-	-	-	529,984
Total	<u>\$ 403,792,767</u>	<u>\$ 1,485,669</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 402,307,098</u>

		2020			
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	<u>\$ 317,655,382</u>	<u>\$ 1,613,446</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 316,041,936</u>

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 5. Investments (Continued)

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

	2021			
	Pooled Investments at CCFLA	Pooled Investments at ADLA	Watson Land Securities	Split Interest Agreements
Contributions	\$ 828,421	\$ 2,289,482	\$ -	\$ -
Withdrawals	(2,914,871)	(1,692,126)	-	-
Transfers to Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-
	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)	(2,032,840)	-	-
Transfers to Level 3	-	-	-	-
Transfers out of Level 3	-	-	-	-

Note 6. 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 on a quarterly basis. Reimbursements due to the Administrative Office were \$509,400 and \$93,857 on June 30, 2021, and 2020, 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, 2021, and 2020.

Note 7. 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 8. Net Assets

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

	2021	2020
Assets with purpose restrictions:		
Tuition award programs	\$ 1,598,836	\$ 1,037,638
Urban Peace and Racial Tolerance 1 and 2	201,638	160,436
	<u>1,800,474</u>	<u>1,198,074</u>
Subject to the passage of time:		
Grants receivable, net	-	200,000
Pledges receivable, net *	50,498,327	2,735,405
Split interest agreements	529,984	491,792
	<u>51,028,311</u>	<u>3,427,197</u>
Subject to the Foundation spending policy and appropriation:		
Investments in perpetuity including pledges for endowments (including original gifts totaling \$20,654,850 and 18,929,819 as of June 30, 2021 and 2020, respectively), and the net investment return from which is expendable to support:		
Tuition award programs	34,941,325	27,590,049
Total net assets with donor restrictions	<u>\$ 87,770,110</u>	<u>\$ 32,215,320</u>

* In addition to a time restriction, pledges receivable are donor restricted to be used for tuition award programs once collected. Pledges for endowments in the amount of \$1,454,593 and \$0 for the years ended June 30, 2021 and 2020 are excluded from pledges receivable and included in endowments.

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:

	2021	2020
Tuition award programs	\$ 7,516,707	\$ 8,031,211
Urban Peace and Racial Tolerance 1 and 2	5,244	5,107
Net assets released from restrictions	<u>\$ 7,521,951</u>	<u>\$ 8,036,318</u>

Note 9. 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—Retirement Benefits. Pension cost for the Foundation was \$39,357 and \$33,825 for the years ended June 30, 2021, and 2020, 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 10. 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 as of June 30, 2021 and June 30, 2020.

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 fiscal years ended June 30, 2021 and June 30, 2020. For the years ended June 30, 2021 and June 30, 2020 the actual expenditures from endowment funds used in support of operations were \$1,320,403 and \$1,256,795, respectively.

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

	2021	2020
	With Donor Restrictions	With Donor Restrictions
Donor-restricted endowment funds:		
Tuition awards program	\$ 34,941,325	\$ 27,590,049

Catholic Education Foundation of the Roman Catholic Archdiocese of Los Angeles

Notes to Financial Statements

Note 10. Endowment Funds and Net Asset Classification (Continued)

	2021	2020
	With Donor Restrictions	With Donor Restrictions
Endowment funds, beginning of the year	\$ 27,590,049	\$ 27,655,950
Contributions	1,479,001	-
Investment return, net	6,946,648	1,190,894
Appropriation of endowment assets for expenditure	(1,320,403)	(1,256,795)
Transfer- endowment pledges	246,030	-
Endowment funds, end of the year	<u>\$ 34,941,325</u>	<u>\$ 27,590,049</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, 2021 and June 30, 2020, no donor-restricted endowments fell below this required level.

The Foundation implemented an endowment spending policy equal to 5% of the average endowment balance on 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 11. Commitments and 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 (WHO) declared the novel coronavirus outbreak a public health emergency. Federal, state, and local mandates were issued requiring closure or partial closures of businesses and schools. The operations of the schools to which the Foundation provides tuition assistance, adapted to provide learning remotely. Schools resumed normal operations in August 2021. The Foundation's face-to-face application process resumed in October 2021, beginning with cycles 1 and 2 (high school and matriculating 8th graders to high school). The Foundation will continue its regular processing system and will meet the deadline to make commitments by June 30, 2022 for 2023 disbursements.

Note 12. Subsequent Events

The Foundation has considered subsequent events through February 23, 2022, the date the financial statements were available to be issued, in preparing the financial statements and notes thereto.