

Financial Statements and Report of
Independent Certified Public Accountants

CATHOLIC EDUCATION FOUNDATION

June 30, 2005 and 2004

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To His Eminence
Cardinal Roger Mahony,
Archbishop of Los Angeles

We have audited the accompanying statements of financial position of the Catholic Education Foundation (the "Foundation"), as of June 30, 2005 and 2004, and the related statements of activity and changes in net assets and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 as established by the Auditing Standards Board of the American Institute of Certified Public Accountants. 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 includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2005 and 2004, 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.



Los Angeles, California
October 12, 2005

Catholic Education Foundation
STATEMENTS OF FINANCIAL POSITION
June 30,

ASSETS	2005				2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Pledges receivable, net	\$ -	\$ 554,388	\$ 22,381	\$ 576,769	\$ -	\$ 696,416	\$ -	\$ 696,416
Investment in pooled funds	42,065,064	5,812,016	6,785,379	54,662,459	41,117,324	5,710,461	6,245,379	53,073,164
Other investment	45,889,355	-	-	45,889,355	35,106,610	-	-	35,106,610
TOTAL ASSETS	\$ 87,954,419	\$ 6,366,404	\$ 6,807,760	\$ 101,128,583	\$ 76,223,934	\$ 6,406,877	\$ 6,245,379	\$ 88,876,190
LIABILITIES AND NET ASSETS								
LIABILITIES								
Due to Administrative Office	\$ 493,322	\$ -	\$ -	\$ 493,322	\$ 171,822	\$ -	\$ -	\$ 171,822
Program awards payable	5,219,269	-	-	5,219,269	5,539,500	-	-	5,539,500
Accounts payable and accrued liabilities	8,755	-	-	8,755	10,267	-	-	10,267
Commitments and contingencies	-	-	-	-	-	-	-	-
TOTAL LIABILITIES	5,721,346	-	-	5,721,346	5,721,589	-	-	5,721,589
NET ASSETS	82,233,073	6,366,404	6,807,760	95,407,237	70,502,345	6,406,877	6,245,379	83,154,601
TOTAL LIABILITIES AND NET ASSETS	\$ 87,954,419	\$ 6,366,404	\$ 6,807,760	\$ 101,128,583	\$ 76,223,934	\$ 6,406,877	\$ 6,245,379	\$ 88,876,190

The accompanying notes are an integral part of these statements.

Catholic Education Foundation
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
Year ended June 30,

	2005				2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES								
Donations	\$ -	\$ 1,717,126	\$ 562,381	\$ 2,279,507	\$ -	\$ 1,823,943	\$ -	\$ 1,823,943
Net Investment Pool gain	2,560,712	716,905	-	3,277,617	4,841,346	1,556,198	-	6,397,544
Dividend income from other investment	1,835,574	-	-	1,835,574	1,835,574	-	-	1,835,574
Unrealized gain on other investment	10,782,745	-	-	10,782,745	5,140,611	-	-	5,140,611
	<u>15,179,031</u>	<u>2,434,031</u>	<u>562,381</u>	<u>18,175,443</u>	<u>11,817,531</u>	<u>3,380,141</u>	<u>-</u>	<u>15,197,672</u>
NET ASSETS RELEASED FROM RESTRICTIONS								
Satisfaction of program restrictions	2,474,504	(2,474,504)	-	-	2,496,381	(2,496,381)	-	-
TOTAL REVENUES	<u>17,653,535</u>	<u>(40,473)</u>	<u>562,381</u>	<u>18,175,443</u>	<u>14,313,912</u>	<u>883,760</u>	<u>-</u>	<u>15,197,672</u>
EXPENSES								
Tuition awards program	4,795,170	-	-	4,795,170	5,292,625	-	-	5,292,625
Other program awards	277,905	-	-	277,905	369,739	-	-	369,739
Santa Barbara awards	267,800	-	-	267,800	397,375	-	-	397,375
Total program expenses	<u>5,340,875</u>	<u>-</u>	<u>-</u>	<u>5,340,875</u>	<u>6,059,739</u>	<u>-</u>	<u>-</u>	<u>6,059,739</u>
Employee compensation and benefits	372,627	-	-	372,627	356,702	-	-	356,702
General operating expenses	209,305	-	-	209,305	125,505	-	-	125,505
General and administrative expenses	<u>581,932</u>	<u>-</u>	<u>-</u>	<u>581,932</u>	<u>482,207</u>	<u>-</u>	<u>-</u>	<u>482,207</u>
Allowance for uncollectible pledges	-	-	-	-	-	-	-	-
Total operating expenses	<u>581,932</u>	<u>-</u>	<u>-</u>	<u>581,932</u>	<u>482,207</u>	<u>-</u>	<u>-</u>	<u>482,207</u>
TOTAL EXPENSES	<u>5,922,807</u>	<u>-</u>	<u>-</u>	<u>5,922,807</u>	<u>6,541,946</u>	<u>-</u>	<u>-</u>	<u>6,541,946</u>
INCREASE (DECREASE) IN NET ASSETS	<u>11,730,728</u>	<u>(40,473)</u>	<u>562,381</u>	<u>12,252,636</u>	<u>7,771,966</u>	<u>883,760</u>	<u>-</u>	<u>8,655,726</u>
NET ASSETS, BEGINNING OF YEAR	<u>70,502,345</u>	<u>6,406,877</u>	<u>6,245,379</u>	<u>83,154,601</u>	<u>62,730,379</u>	<u>5,523,117</u>	<u>6,245,379</u>	<u>74,498,875</u>
NET ASSETS, END OF YEAR	<u>\$ 82,233,073</u>	<u>\$ 6,366,404</u>	<u>\$ 6,807,760</u>	<u>\$ 95,407,237</u>	<u>\$ 70,502,345</u>	<u>\$ 6,406,877</u>	<u>\$ 6,245,379</u>	<u>\$ 83,154,601</u>

The accompanying notes are an integral part of these statements.

Catholic Education Foundation
STATEMENTS OF CASH FLOWS
Year ended June 30,

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 12,252,636	\$ 8,655,726
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Realized and unrealized investment pool gain	(2,130,326)	(5,684,393)
Unrealized gain on other investment	(10,782,745)	(5,140,611)
Amortization of pledge discounts	36,252	82,144
Decrease in pledges receivable	83,395	148,044
Increase in due to Administrative Office	321,500	80,153
(Decrease) increase in program awards payable	(320,231)	462,700
Decrease in accounts payable and accrued liabilities	(1,512)	(59,575)
Total adjustments	(12,793,667)	(10,111,538)
Net cash used in operating activities	(541,031)	(1,455,812)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to investment in pooled funds	(6,029,130)	(7,230,868)
Redemptions from investment in pooled funds	6,570,161	8,686,680
Net cash provided by investing activities	541,031	1,455,812
NET CHANGE IN CASH AND CASH EQUIVALENTS	-	-
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	-	-
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ -	\$ -

The accompanying notes are an integral part of these statements.

Catholic Education Foundation
NOTES TO FINANCIAL STATEMENTS
June 30, 2005 and 2004

NOTE A - ORGANIZATION

The Catholic Education Foundation (the "Foundation") of the Roman Catholic Archdiocese of Los Angeles (the "Archdiocese") was formed in 1987 as a trust for charitable purposes. It continues to have a primary mission to provide tuition assistance to the most financially deserving students attending Parish elementary schools in the Archdiocese or Catholic high schools within the Archdiocese that particularly assist a financially deserving population. The Foundation's revenues are derived from contributions from individuals, corporations and foundations and from earnings on investments.

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of the significant accounting policies consistently applied in the preparation of the accompanying financial statements follows:

1. Basis of Accounting

The financial statements of the Foundation have been prepared on the accrual basis of accounting.

2. Basis of Presentation

The financial statements of the Foundation have been presented in accordance with the *Audit and Accounting Guide for Not-For-Profit Organizations* issued by the American Institute of Certified Public Accountants. The guide states that net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation and changes therein are classified and reported as follows:

Unrestricted net assets

Net assets that are not subject to donor-imposed restrictions.

Temporarily restricted net assets

Includes amounts for which donor imposed restrictions have not been met and pledges receivable for which the ultimate purpose of the proceeds is not permanently restricted. All temporarily restricted net assets are available to fund future tuition and other awards.

Permanently restricted net assets

Includes gifts and pledges, which require, by donor restriction, that the corpus be invested in perpetuity and only the income be made available for program operations in accordance with donor restrictions. All permanently restricted investments provide investment income, which is temporarily restricted until utilized for tuition awards.

The permanently restricted endowment funds of the Foundation are invested in the investment pool of the Archdiocese (see Note E).

Catholic Education Foundation
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2005 and 2004

NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

3. Pledges Receivable

In accordance with FASB Statement No. 116, *Accounting for Contributions Received and Contributions Made*, unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the years in which the promises are received. Amortization of the discounts is included in donations revenues. 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.

4. Investments

Investments in equity securities with readily determinable fair values and all investments in debt securities are reported at fair value with gains and losses included in the statement of activities. Gains and losses on investments are reported in the statement of activities as increases or decreases in unrestricted net assets unless their use is temporarily restricted by explicit donor stipulations.

5. Income Taxes

As a Trust of the Archdiocese, 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.

6. Using Estimates

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, 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 considers the allowance for uncollectible pledges to be such an estimate.

Catholic Education Foundation
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2005 and 2004

NOTE C - DUE TO ADMINISTRATIVE OFFICE

The Administrative Office of The Roman Catholic Archdiocese of Los Angeles (the "Administrative Office") receives and disburses funds on behalf of the Foundation primarily for program awards and employee related expenses. Funds received by the Foundation are processed through the Administrative Office for deposit in the investment pool. 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 \$493,322 and \$171,822 at June 30, 2005 and 2004, respectively.

NOTE D - PLEDGES RECEIVABLE

Included in pledges receivable are the following:

	2005	2004
Pledges receivable, before unamortized discount and allowance for uncollectible pledges	\$1,749,479	\$ 1,905,378
Less: unamortized discount	(52,710)	(88,962)
Subtotal	1,696,769	1,816,416
Less: allowance for uncollectible pledges	(1,120,000)	(1,120,000)
Pledges receivable, net	\$ 576,769	\$ 696,416
	2005	2004
Amounts due in:		
Less than one year	\$ 161,500	\$ 284,299
One to five years	312,949	344,049
More than five years	1,275,030	1,277,030
	\$1,749,479	\$1,905,378

The discount rate applied in determining the unamortized discount was 4.28% for 2005, and 5.33% for 2004.

Catholic Education Foundation
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2005 and 2004

NOTE D - PLEDGES RECEIVABLE - Continued

Reconciliation of pledges receivable and donation revenue is as follows for the years ended June 30:

	2005	2004
Pledges receivable, net, beginning of year	\$ 696,416	\$ 926,604
Donation income:		
New pledges	213,743	10,800
Cash contributions in addition to pledges	2,029,512	1,730,999
Amortization of present value discount	36,252	82,144
Total donation income	2,279,507	1,823,943
Payments received during the year	(2,399,154)	(2,054,131)
Pledges receivable, net, end of year	\$ 576,769	\$ 696,416

NOTE E - INVESTMENT IN POOLED FUNDS

In November 1986, the Archdiocese established an investment pool, which administers assets in trust, as agent and through independent custodial arrangements for the benefit of the various entities of the Archdiocese. The Foundation has participated in the investment pool since its formation in 1987. The funds deposited by or on behalf of each participant are the sole property of that participant and are processed by the investment pool service providers and the Archdiocese as agents, custodians and trustees for the participants. Servicing and custodial arrangements for the investment pool allow for direct fund access and reporting for all participants. The investment pool has two separate pools, the Balanced Pool and the Income Pool. The Balanced Pool was established to provide participants with long-term objectives of capital appreciation combined with capital preservation. Assets of the Balanced Pool, as of June 30, 2005 and 2004, are invested 60% and 60% in equities, 37% and 36% in fixed income securities, 2% and 3% in cash and cash equivalents and 1% and 1% in other assets, respectively.

The Income Pool was established to provide shorter-term objectives of current income with low risk of fluctuation in principal value. Assets of the Income Pool, as of June 30, 2005 and 2004, are invested 83% and 72% in fixed income securities, 13% and 20% in notes receivable, 3% and 7% in cash and cash equivalents and 1% and 1% in other investments, respectively.

As of June 30, 2005 and 2004, the Foundation invested \$54,339,055 and \$52,509,307 in the Balanced Pool and \$323,404 and \$563,857 in the Income Pool, respectively.

Catholic Education Foundation
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2005 and 2004

NOTE E - INVESTMENT IN POOLED FUNDS - Continued

The investments in both funds are carried at market value. The pool is operated under the total return concept, under which each participant is allocated income (loss) based upon the total return earned on invested funds, including realized and unrealized gains and losses. Participant allocation of income earned and realized and unrealized gains and losses in the Balance Pool and Income Pool are based upon the time and dollar-weighted method under which participants are assigned a weighted value for the time that the funds have been held in the respective pools.

The average annual return and net realized and unrealized gain or (loss) related to these investments for the years ended June 30 are as follows:

	<u>2005</u>	<u>2004</u>
Average Annual Return		
Balanced Pool	6.3%	15.2%
Income Pool	2.5%	1.3%
Interest and dividends income:		
Balanced Pool	\$1,466,187	\$1,062,202
Income Pool	<u>11,887</u>	<u>86,254</u>
Total interest and dividend income	<u>1,478,074</u>	<u>1,148,456</u>
Net realized and unrealized gain (loss)		
Balanced Pool	2,131,879	5,718,937
Income Pool	<u>(1,553)</u>	<u>(34,544)</u>
Total net realized and unrealized gain	2,130,326	5,684,393
Investment Expenses	<u>(330,783)</u>	<u>(435,305)</u>
Total investment income	<u><u>\$3,277,617</u></u>	<u><u>\$6,397,544</u></u>

NOTE F - OTHER INVESTMENT

Other investment includes the investment in Watson Land Company (501,523 shares owned in 2005 and 2004), which was donated to the Foundation in 1991. The fair value of the investment is determined by independent financial advisors and was \$45,889,355 and \$35,106,610 at June 30, 2005 and 2004, respectively.

Gain on investment in Watson Land Company was \$10,782,745 and \$5,140,611 for the years ended June 30, 2005 and 2004, respectively.

Catholic Education Foundation
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2005 and 2004

NOTE G - REVOCABLE LIVING TRUSTS AND BEQUESTS

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

NOTE H - IRREVOCABLE DEFERRED GIFTS

The Foundation is the designated beneficiary of certain gift annuities that are not reported in the accompanying statements of assets. The principal amount of these gift annuities total \$668,081 and \$862,667 at June 30, 2005 and 2004. Amounts received from gift annuities are recorded as revenue when received and may be less than the principal amount. The Foundation is also named as a 15% and 100% beneficiary of two Charitable Remainder Unitrusts disclosed on the financial statements of the Administrative Office. The Foundation's portion of the trust principal is \$351,228 and \$198,000 as of June 30, 2005 and 2004.

NOTE I - RELATED PARTIES

Gross pledges receivable totaling \$1,256,030 and \$1,524,279 at June 30, 2005 and 2004, respectively, were receivable from related parties. Related parties include Trustees of the Foundation and entities owned by those Trustees.

NOTE J - COMMITMENTS AND CONTINGENCIES

The Archdiocese is involved in numerous currently pending lawsuits relating to claims of sexual misconduct by certain individuals. The Foundation is not a named party in any of these lawsuits. The Archdiocese does not currently believe that the assets, activities or ministries of the Foundation will be impacted by losses, which could arise if the claims are not resolved within insurance policy limits or with other assets available from the Administrative Office. However, if the proceeds of insurance or those assets are insufficient to resolve the claims, the potential losses could impact the assets, activities and ministries of the Foundation. The financial impact from these claims to the Foundation, if any, is uncertain and, in accordance with accounting principles generally accepted in the United States of America, no accrual has been made in these financial statements.

Catholic Education Foundation
NOTES TO FINANCIAL STATEMENTS - CONTINUED
June 30, 2005 and 2004

NOTE J - COMMITMENTS AND CONTINGENCIES - Continued

The Archdiocese is subject to various other lawsuits and claims, including general litigation. Various lawsuits and claims, not related to the sexual misconduct claims, are pending against the Archdiocese. There are no such claims against the Foundation and the resolution of such claims against the Archdiocese is not expected to have any financial impact on the Foundation.

NOTE K - FAIR VALUE OF FINANCIAL INSTRUMENTS

The following summarizes the major methods and assumptions used in estimating the fair values of financial instruments:

Investment in pooled funds and other investments

The carrying amounts of these financial instruments are a reasonable estimate of their fair value due to the short-term to maturity and readily available markets for the investments.

Pledges receivable

The fair values of the pledges receivable are determined by analyzing discounted cash flow, using interest rates currently being earned on loans of similar terms and credit quality. The carrying amount approximates the fair value.

Amounts Due to Administrative Office

The carrying amounts approximate fair value based on the terms of payment to the Administrative Office.

Accounts payable, accrued liabilities and grants payable

The carrying amounts approximate fair value based on the terms of payment to the Foundation's vendors and grantees.