ACCOUNTING + CONSULTING

THE ORANGE CATHOLIC FOUNDATION

Financial Statements
Year Ended December 31, 2012
(With Summarized Comparative Information for the Year Ended December 31, 2011)
(With Independent Auditor's Report Thereon)

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
The Orange Catholic Foundation

We have audited the accompanying financial statements of The Orange Catholic Foundation (the "Foundation"), which comprise the statement of financial position as of December 31, 2012 and the related statements of activities and cash flows for the year 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 audit. We conducted our audit 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 from 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.

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INDEPENDENT AUDITOR'S REPORT
(Continued)

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of December 31, 2012, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Foundation's 2011 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated February 21, 2012. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2011 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Kushner, Smith, Joanou & Gregson, LLP

March 12, 2013

Kushner, Smith, Joanou, and Gregson, LLP
8105 Irvine Center Drive, Suite 1000, Irvine, California 92618

THE ORANGE CATHOLIC FOUNDATION

Statement of Financial Position
December 31, 2012 and 2011

ASSETS

	2012	2011
Cash and cash equivalents	$ 8,115,726	$ 7,431,695
Investments (Note 2)	13,109,955	11,875,900
Pledges receivable, net (Note 3)	4,133,029	1,037,500
Prepaid expenses	25,446	100,044
Property and equipment , net (Note 4)	47,388	60,820
Total assets	$ 25,431,544	$ 20,505,959

LIABILITIES AND NET ASSETS

	2012	2011
Liabilities:		
Accounts payable and accrued liabilities (Note 7)	$ 2,163,732	$ 2,200,538
Notes payable - affiliate (Note 11)	2,070,000	70,000
Deferred contributions	17,625	--
Total liabilities	4,251,357	2,270,538
Net assets:		
Unrestricted		
Undesignated	1,117,648	1,214,882
Board-designated (Note 9)	1,085,981	974,795
	2,203,629	2,189,677
Temporarily restricted (Note 8)	5,970,812	4,114,873
Permanently restricted (Notes 8 and 10)	13,005,746	11,930,871
Total net assets	21,180,187	18,235,421
	$ 25,431,544	$ 20,505,959

See accompanying notes to financial statements

THE ORANGE CATHOLIC FOUNDATION

Statement of Activities and Changes in Net Assets
Year Ended December 31, 2012
(With summarized comparative information for the year ended December 31, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Total 2011
Revenues and support:					
Pastoral service appeal (Note 5):					
Pastoral service appeal revenue	$ 11,152,512	$ 16,865	$ --	$ 11,169,377	$ 10,812,260
Less parish rebates	(5,071,377)	--	--	(5,071,377)	(4,991,260)
Net revenues from pastoral services appeal	6,081,135	16,865	--	6,098,000	5,821,000
Capital campaign	2,728,012	3,978,050	--	6,706,062	2,396,000
Contributions	39,346	292,180	71,941	403,467	728,360
Special events - net of direct costs of $96,041 and $68,181, respectively	40,307	239,521	--	279,828	105,874
Administrative income	49,930	--	--	49,930	40,650
Investment income	217	7,621	116,296	124,134	190,785
Realized and unrealized gain on investments	--	87,719	1,535,697	1,623,416	109,388
(Loss) on disposal of property and equipment	--	--	--	--	(30,619)
Other income	428,049	--	--	428,049	394,777
Revisions of donor restrictions	(246,954)	384,167	(137,213)	--	--
Net assets released from restrictions	3,632,059	(3,150,184)	(481,875)	--	--
	6,670,966	1,839,074	1,104,846	9,614,886	3,935,215
Total revenues and support	12,752,101	1,855,939	1,104,846	15,712,886	9,756,215

(Statement of activities and changes in net assets continued on the following page)

THE ORANGE CATHOLIC FOUNDATION

Statement of Activities and Changes in Net Assets
(Continued)
Year Ended December 31, 2012
(With summarized comparative information for the year ended December 31, 2011)

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total 2012	Total 2011
Expenses:					
Program services:					
Scholarships and grants	5,791,761	--	--	5,791,761	5,274,350
Capital campaign	4,519,040	--	--	4,519,040	--
Auxiliary activities	1,179,523	--	--	1,179,523	1,118,191
Total program services	11,490,324	--	--	11,490,324	6,392,541
Supporting services:					
General and administrative:					
Personnel expenses	111,463	--	--	111,463	88,366
Administrative expenses - general	100,826	--	29,971	130,797	60,113
Administrative expenses - capital campaign	79,405	--	--	79,405	--
Professional fees - general	18,758	--	--	18,758	26,521
Professional fees - capital campaign	92,377	--	--	92,377	--
Fundraising expenses:					
Fundraising expenses - general	462,489	--	--	462,489	349,999
Fundraising expenses - capital campaign	382,507	--	--	382,507	--
Total supporting services	1,247,825	--	29,971	1,277,796	524,999
Total expenses	12,738,149	--	29,971	12,768,120	6,917,540
Change in net assets	13,952	1,855,939	1,074,875	2,944,766	2,838,675
Net assets, beginning of year	2,189,677	4,114,873	11,930,871	18,235,421	15,396,746
Net assets, end of year	$ 2,203,629	$ 5,970,812	$ 13,005,746	$ 21,180,187	$ 18,235,421

See accompanying notes to financial statements

THE ORANGE CATHOLIC FOUNDATION

Statement of Cash Flows
Years Ended December 31, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	$ 2,944,766	$ 2,838,675
Adjustments to reconcile change in net assets		
to net cash (used in) provided by operating activities		
Realized and unrealized gain on investments	(1,623,416)	(109,388)
Loss from the sale of property and equipment	--	30,619
Contributions restricted for long-term purposes	(71,941)	(229,994)
Depreciation	29,744	9,110
(Increase) decrease in:		
Pledges receivable	(3,095,529)	(1,030,000)
Prepaid expenses	74,598	(100,044)
Increase (decrease) in:		
Accounts payable and accrued liabilities	(36,806)	255,867
Deferred contributions	17,625	(10,000)
Net cash (used in) provided by operating activities	(1,760,959)	1,654,845
Cash flows from investing activities:		
Purchases of investments	(328,164)	(3,301,513)
Proceeds from sale of investments	717,525	3,318,743
Purchases of property and equipment	(16,312)	(12,370)
Net cash provided by investing activities	373,049	4,860
Cash flows from financing activities:		
Contributions restricted for long-term purposes	71,941	229,994
Notes payable - affiliate	2,000,000	--
Due to affiliate	--	70,000
Net cash provided by financing activities	2,071,941	299,994
Net increase in cash and cash equivalents	684,031	1,959,699
Cash and cash equivalents:		
Beginning of year	7,431,695	5,471,996
End of year	$ 8,115,726	$ 7,431,695

Supplemental disclosure of non-cash financing activity:

During the year ended December 31, 2012, the Organization converted amounts due to affiliate of $70,000 to a promissory note (Note 11).

See accompanying notes to financial statements

THE ORANGE CATHOLIC FOUNDATION

Notes to Financial Statements
December 31, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization - The Orange Catholic Foundation (the "Foundation") was established as a California non-profit religious organization to receive gifts, grants, contributions and bequests from individuals and organizations that will be maintained as unrestricted funds, donor-restricted funds, donor-advised funds, special interest funds and endowment funds for the purpose of supporting the religious purposes, programs, schools, clergy and other works of piety, of the apostolate, or of charity, spiritual or temporal, within the meaning of canon 114, § 2 of the Codex iuris canonici promulgated by His Holiness Pope John Paul II on January 25, 1983 by the Apostolic Constitution Sacræ disciplinæ leges (the "Code of Canon Law") or, as directed by and through the Roman Catholic Bishop of Orange, for the benefit of the Roman Catholic Church in the Diocese of Orange (the "Diocese of Orange"). It is intended that the organization will make annual grants to such organizations or individuals at such times and in such amounts to carry out its charitable and religious purposes as its Board of Directors shall determine or as shall be required by a donor.

The accompanying financial statements do not include the assets, liabilities, and operations of the Administrative Office of the Diocese of Orange, parishes, high schools, elementary schools, or any other affiliated organizations under the jurisdiction of the Roman Catholic Bishop of Orange.

Basis of Presentation - The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America. The Foundation summarizes the costs of providing its various programs and other activities on a functional basis in the accompanying statements of activities and changes in net assets. Accordingly, certain costs are allocated among program and supporting services based on specific identification or allocation methodologies.

Net assets and changes in net assets are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Foundation are classified and reported as follows:

Unrestricted – net assets that are not subject to donor-imposed stipulations including amounts designated by the Board of Directors.

Temporarily restricted – net assets subject to donor-imposed stipulations that will be met by actions of the Foundation and/or the passage of time.

Permanently restricted – net assets subject to donor-imposed stipulations that they be maintained permanently by the Foundation. Generally, the donors permit the Foundation to use the income earned on related investments for general or specific purposes.

The Foundation's policy is to record temporarily restricted gifts that are received and spent in the same year as unrestricted support.

(Note 1 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION

Notes to Financial Statements
(Continued)
December 31, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents - The Foundation considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Concentration of Credit Risk - The Foundation maintains its cash balances at a single financial institution which, at times, may exceed federally insured limits. The Foundation has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Investments - Investments are measured and reported at fair value. Those with a readily determinable fair value are based on quotations obtained from national security exchanges. Investments with fair values that are not readily determinable are carried at estimated fair values as provided by the investment managers. Foundation management reviews and evaluates the values provided by the investment managers and agrees with the valuation methods and assumptions used in determining their estimated fair value. Due to the inherent uncertainties of these estimates, these values may differ from the values that would have been reported had a ready market for such investments existed. Changes in fair value are reported as investment income or loss in the statement of activities. All investments are exposed to various risks, such as interest rate, market and credit risks. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes, could materially affect the amounts reported in the financial statements.

Pledges Receivable - Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the years in which the promises are received. 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. If a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as unrestricted.

(Note 1 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION

Notes to Financial Statements
(Continued)
December 31, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment - Property and equipment is stated at cost, net of accumulated depreciation. Repair and maintenance costs that do not extend an asset's useful life are expensed as incurred, while major betterments and renewals are capitalized. Depreciation is computed using the straight-line method over the estimated useful lives of assets, which range from three to ten years, commencing on the first day the asset is placed in service.

Custodian Funds - These funds relate to monies received from a parish whereby the Foundation acts as a custodian. Any income and gains earned are for the benefit of these parishes. The corresponding asset and liability is not recorded on the statements of financial position. The Foundation collects a custodial fee for the administration of the funds. Total funds under the custody of the Foundation amounted to $145,725 and $5,015,021 as of December 31, 2012 and 2011, respectively.

Pass-through Funds - These funds relate to investment securities received from various donors whereby the Foundation acts as a conduit to immediately liquidate the securities and pass them along to the requested beneficiary, usually a church or school within the Diocese. The corresponding asset and liability is not recorded on the statements of financial position. Total funds under the custody of the Foundation amounted to $285,083 as of December 31, 2012. No such funds were under the custody of the Foundation as of December 31, 2011.

Long-Lived Assets - The Foundation reviews the carrying values of its long-lived assets for possible impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Any long- lived assets held for disposal are reported at the lower of their carrying amounts or fair value less costs to sell. No impairments were identified during the years ended December 31, 2012 and 2011.

(Note 1 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION

Notes to Financial Statements
(Continued)
December 31, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions - Contributions, including unconditional promises to give, are recognized when received or pledged by the donor. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor for a specific time or purpose are reported as temporarily or permanently restricted contributions based on the nature of the restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and are reported in the statement of activities as net assets released from restrictions. In the event a donor makes changes to the nature of a restricted gift which affects its classification among the net asset categories, such amounts are reflected as revisions of donor restrictions in the statement of activities and changes in net assets.

Unconditional promises to give are reported at their net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of the amounts expected to be collected.

Gifts In-Kind - Contributed gifts in-kind are recognized if they (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. There were Gift In-Kind contributions in the amount of $10,759 and $3,500 recorded as contribution income and general and administrative and fundraising expense in the statement of activities for the years ended December 31, 2012 and 2011, respectively.

Income Taxes - The Foundation has been granted tax-exempt status by the Internal Revenue Service and the California Franchise Tax Board under Sections 501 (c)(3) and 23701(d), respectively. Accordingly, no tax provision has been recorded in the financial statements. Furthermore, the Foundation is exempt from filing tax returns under the Catholic Directory exemption.

Vacation Expense - Hourly and salary employees earn credits during the current year for future vacation benefits. The expense and corresponding liability are accrued when vacations are earned rather than when vacations are paid.

(Note 1 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION

Notes to Financial Statements
(Continued)
December 31, 2012 and 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates - The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications - The summarized financial statements for the year ended December 31, 2011 reflect certain reclassifications, which have no effect on total changes in net assets, to conform to classifications adopted at December 31, 2012.

Subsequent Events - The Foundation evaluated subsequent events through March 12, 2013, the date these financial statements were issued. With the exception of those matters discussed in Note 6, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

Fair Value Measurements - The carrying value of financial instruments in the financial statements approximates fair value.

The Foundation has adopted the accounting standard for fair value measurements of financial assets and financial liabilities (Note 2), and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the financial statements on a recurring basis. The accounting standard 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 at the measurement date.

The assets that are recorded at fair value on a recurring basis are investments. The Foundation has no financial liabilities or non-financial items that are recorded at fair value on a recurring basis.

(Note 1 continued on the following page)

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Accounting standards establish a three-level fair value hierarchy that describes the inputs that are used to measure the fair values of respective assets and liabilities:

- Level 1: fair values are based on quoted prices in active markets for identical assets and liabilities. The Foundation's Level 1 assets include institutional mutual funds.

- Level 2: fair values are based on observable inputs that include: quoted market prices for similar assets or liabilities; quoted market prices that are not in an active market; or other inputs that are observable in the market and can be corroborated by observable market data for substantially the full term of the asset. The Foundation does not hold any Level 2 assets.

- Level 3: fair values are calculated by the use of pricing models and/or discounted cash flow methodologies, and may require significant management judgment or estimation. These methodologies may result in a significant portion of the fair value being derived from unobservable data. The Foundation does not hold any Level 3 assets.

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair values may not be realized in the immediate settlement of the financial asset. In addition, the disclosed fair values do not reflect any premium or discount that could result from offering from sale at one time an entire holding of a particular financial asset. Potential taxes and other expenses that would be incurred in an actual sale or settlement are not reflected in amounts disclosed.

THE ORANGE CATHOLIC FOUNDATION

Notes to Financial Statements
(Continued)
December 31, 2012 and 2011

NOTE 2 - INVESTMENTS

Investments as of December 31, 2012 and 2011 consist of equity mutual funds.

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of December 31, 2012 and 2011:

	Assets at Fair Value as of December 31, 2012			
	Level 1	*Level 2*	*Level 3*	*Total*
Balanced fund	$ 9,154,699	$ --	$ --	$ 9,154,699
Domestic fund	3,955,256	--	--	3,955,256
Total assets at fair value	$ 13,109,955	$ --	$ --	$ 13,109,955

	Assets at Fair Value as of December 31, 2011			
	Level 1	*Level 2*	*Level 3*	*Total*
Balanced fund	$ 8,456,675	$ --	$ --	$ 8,456,675
Domestic fund	3,419,225	--	--	3,419,225
Total assets at fair value	$ 11,875,900	$ --	$ --	$ 11,875,900

Investment income for the years ended December 31, 2012 and 2011 is summarized as follows:

	Years Ended December 31,	
	2012	**2011**
Interest and dividend income	$ 124,134	$ 190,785
Realized and unrealized gain	1,623,416	109,388
	$ 1,747,550	$ 300,173

THE ORANGE CATHOLIC FOUNDATION

Notes to Financial Statements
(Continued)
December 31, 2012 and 2011

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable as of December 31, 2012 and 2011, all of which are related to the Capital Campaign (Note 6) include amounts that have been discounted at rates ranging from 0.25% to 1.78% are as follows:

	2012	2011
Amounts due in:		
Less than one year	$ 63,333	$ 1,037,500
One to five years	4,304,466	--
Greater than five years	50,000	--
Total pledges	4,417,799	1,037,500
Less:		
Discount to present value	(10,791)	--
Reserve for uncollectible pledges	(273,979)	--
	$ 4,133,029	$ 1,037,500

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2012 and 2011 consists of the following:

	2012	2011
Office furniture and computer equipment	$ 121,610	$ 105,298
Less accumulated depreciation	(74,222)	(44,478)
	$ 47,388	$ 60,820

Depreciation expense for the years ended December 31, 2012 and 2011 was $29,744 and $9,110, respectively.

THE ORANGE CATHOLIC FOUNDATION

Notes to Financial Statements
(Continued)
December 31, 2012 and 2011

NOTE 5 - PASTORAL SERVICES APPEAL

Net revenues from the Pastoral Services Appeal (PSA) to the Foundation are limited to gifts made by parishioners up to the total of the goals for all parishes. These goals are established through a consultative process and accepted by the Diocesan Bishop. Parish goals are set and are clearly noted in the PSA campaign materials and in the gift solicitation presentations made at the parishes. Amounts collected over each parish's goal are returned to that parish and are reported on the statement of activities as PSA revenue offset by direct rebates to parishes. PSA revenues are temporarily restricted until they are expended for the pastoral ministry departments and programs as well as grants to Catholic Charities of Orange County. Any resulting difference between the amount of temporarily restricted income received and programs funded remains temporarily restricted until expended. Total PSA revenue of $11,169,377 and $10,812,260 were offset by parish rebates of $5,071,377 and $4,991,260 for the years ended December 31, 2012 and 2011, respectively. The amount due to parishes included in accounts payable and accrued expenses at December 31, 2012 and 2011 was $740,567 and $714,103, respectively, (Note 7). Amounts due have been subsequently paid in January 2013 and 2012, respectively.

NOTE 6 - FOR CHRIST FOREVER CAPITAL CAMPAIGN AND SUBSEQUENT EVENTS

In August of 2011, the Foundation at the request of the Roman Catholic Bishop of Orange (RCBO) commissioned a Campaign Feasibility Study to gauge the support of a capital campaign to raise funds for a Cathedral, local parishes, priests' retirement, Catholic education, and Diocesan ministries. Based on the results of the study, a diocesan capital campaign named For Christ Forever: Supporting Our Faith, Church and Future was approved by the Foundation's Board of Directors and the RCBO in February of 2012.

In February 2012, the Foundation and RCBO entered into a Capital Campaign Services Agreement authorizing the Foundation to manage the operations of the capital campaign and receive gifts, grants, contributions and bequests from individuals and foundations for the purpose of supporting the renovation of the future Christ Cathedral, Catholic education, retired priests, diocesan ministries and local parishes and centers.

As gifts, grants, contributions and bequests are received by the Foundation for the capital campaign, the Foundation will make grants to such organizations at such times and in such amounts to carry out the charitable and religious purposes outlined in the capital campaign goals and as approved by the Foundation's Board or Directors or as shall be required by a donor.

(Note 6 continued on the following page)

NOTE 6 - FOR CHRIST FOREVER CAPITAL CAMPAIGN AND SUBSEQUENT EVENTS (Continued)

A diocesan-wide leadership phase of the For Christ Forever capital campaign began in February 2012 and will continue through December 2013. The parish-phase portion of the Capital Campaign is scheduled to start in 2013 with 62 Diocesan parishes and centers split into two fundraising blocks. Parish financial goals were determined using a formula based on three year average ordinary income plus 2013 PSA Goal. A part of each parish's financial target will include their portion of the PSA for 2013 (Note 5).

Parishes and centers picked one of two following campaign options: A Good Faith Effort or a Parish Campaign Guarantee Agreement ("piggyback campaign"). A parish selecting the Good Faith Effort campaign guarantees their 2013 PSA Goal and will receive 25% of the net funds collected above their 2013 PSA Goal. If a Good Faith Effort parish exceeds their Total Diocesan Capital Campaign Goal they will then receive 50% of funds raised above and beyond their Total Diocesan Capital Campaign Goal. A maximum allocations cap applies to parish donors who have pledged more than $50,000 to the Capital Campaign. A parish selecting the piggyback campaign will run their own campaign and will guarantee 75% of their Total Diocesan Capital Campaign Goal plus their PSA Goal for 2013. Capital campaign revenues are temporarily restricted until they are expended for capital campaign purposes. Total capital campaign revenue amounted to $6,706,062 and $2,396,000 for the years ended December 31, 2012 and 2011, respectively.

NOTE 7 - ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities consist of the following at December 31, 2012 and 2011:

	2012	2011
Tuition assistance and grants due to various parishes, schools and Catholic related causes	$ 1,303,917	$ 1,395,150
PSA rebates (Note 5)	740,567	714,103
Salaries and wages	19,391	15,833
Vacation	33,949	23,366
Interest (Note 11)	53,162	--
Other	12,746	52,086
	$ 2,163,732	$ 2,200,538

THE ORANGE CATHOLIC FOUNDATION

Notes to Financial Statements
(Continued)
December 31, 2012 and 2011

NOTE 8 - NET ASSETS

Temporarily restricted net assets at December 31, 2012 and 2011 consist of the following:

	2012	2011
Pastoral services appeal	$ 16,865	$ 47,500
Capital campaign	4,116,262	2,410,737
Tuition assistance and grants to various parishes, schools and Catholic related causes	1,837,685	1,656,636
	$ 5,970,812	$ 4,114,873

Temporarily restricted net assets were released during the year ended December 31, 2012 and 2011 for the following purposes:

	2012	2011
Pastoral services appeal	$ 47,500	$ 211,889
Capital campaign	2,396,018	--
Tuition assistance and grants to various parishes, schools and Catholic related causes	706,666	865,030
	$ 3,150,184	$ 1,076,919

Permanently restricted net assets as of December 31, 2012 and 2011 are restricted to investment in perpetuity, the income from which is expendable to support:

	2012	2011
Parishes and school endowment	$ 13,005,746	$ 11,930,871

THE ORANGE CATHOLIC FOUNDATION

Notes to Financial Statements
(Continued)
December 31, 2012 and 2011

NOTE 9 - DESIGNATED NET ASSETS

Through the budgetary process, the Foundation has designated funds for specific purposes which are presented in the accompanying statement of financial position as unrestricted net assets.

Net assets designated from the Information and Technology Special Interest Fund have been allocated to provide for grants to Catholic schools and parishes for information and technology upgrades and education. Additions to the reserve including interest earned and unrealized gains totaled $320,112 and $284,204 during the years ended December 31, 2012 and 2011, respectively. The reserve was reduced by $208,926 and $14,254 for grants during the years ended December 31, 2012 and 2011, respectively.

NOTE 10 - ENDOWMENT

The Foundation has adopted the accounting standard for Endowments of Not-for-Profit Organizations. A key component of the accounting standard is a requirement to classify the portion of a donor-restricted endowment fund that is not classified as permanently restricted net assets as temporarily restricted net assets until appropriated for expenditure. Adoption of this standard did not affect the financial position or changes in net assets of the Foundation.

The accounting standard provides guidance with respect to the accounting for donor-restricted endowment funds subject to the Uniform Prudent Management of Institutional Funds Act (UPMIFA), which the State of California has enacted. In addition, the accounting standard requires expanded disclosures for all endowment funds. Based on its interpretation of the provisions of UPMIFA and the accounting standard, the Foundation has determined that retaining its existing policies regarding net asset classification of its donor-restricted endowment funds is appropriate. The historic dollar value of donor-restricted endowment contributions is reported as permanently restricted net assets.

(Note 10 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION

Notes to Financial Statements
(Continued)
December 31, 2012 and 2011

NOTE 10 - ENDOWMENT (Continued)

The Foundation's endowment consists of 29 individual funds established for a variety of purposes.

Changes in Endowment Net Assets for the Years Ending December 31, 2012 and 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, December 31, 2010	$ (1,817)	$ 53,464	$ 12,069,972	$ 12,121,619
Contributions	--	--	229,994	229,994
Investment return:				
Investment income	1,817	14,271	172,819	188,907
Realized and unrealized gain on investments	--	7,605	100,780	108,385
Revisions of donor restrictions	--	--	(308,204)	(308,204)
Appropriation of endowment for expenditure	368,919	(34,429)	(334,490)	--
Expenditure of appropriated funds	(368,919)	--	--	(368,919)
Endowment net assets, December 31, 2011	--	40,911	11,930,871	11,971,782
Contributions	--	--	71,941	71,941
Investment return:				
Investment income	--	5,254	116,296	121,550
Realized and unrealized gain on investments	--	69,299	1,535,697	1,604,996
Revisions of donor restrictions	--	(19,372)	(137,213)	(156,585)
Appropriation of endowment for expenditure	518,236	(6,390)	(511,846)	--
Expenditure of appropriated funds	(518,236)	--	--	(518,236)
	$ --	$ 89,702	$ 13,005,746	$ 13,095,448

(Note 10 continued on the following page)

NOTE 10 - ENDOWMENT (Continued)

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor requires the Foundation to retain as a fund of perpetual duration. There were no such deficiencies of this nature that are reported in unrestricted net assets as of December 31, 2012 and 2011.

Return Objectives and Risk Parameters

The Foundation has adopted investment and spending policies for endowment assets that provide continued financial stability for the Foundation and a revenue stream for spending on the Foundation’s mission. Endowment assets include those assets of donor-restricted funds that the organization must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a socially responsible manner that promotes diversification while obtaining a competitive rate of return with the secondary objective to maintain liquidity.

Strategies Employed for Achieving Objectives

To satisfy its long-term rate-of-return, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yields (interest and dividends). The Foundation targets a diversified asset allocation that utilizes fixed income and equity-based investments to achieve its long-term objectives within prudent risk constraints.

Spending Policy and How the Investment Objectives Relate to Spending Policy

The Foundation’s investment policy includes an endowment spending rate of 5% of the endowment funds' market value over a rolling three-year average. This spending rate constitutes the Board's annual appropriation for spending endowment earnings. These spending assumptions are intended to allow for the significant and immediate spending of the income of the portfolio, provide a target rate of return for the endowment funds held by the Foundation, and provide a sustainable spending level that will allow for support of the Foundation’s initiatives in fulfilling its mission, while maintaining the purchasing power of the endowment funds’ assets.

THE ORANGE CATHOLIC FOUNDATION

Notes to Financial Statements
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December 31, 2012 and 2011

NOTE 11 - TRANSACTIONS WITH AFFILIATE

In November 2008, the Foundation entered into a service agreement with the Diocese where the Diocese will provide human resources, risk management and legal services to the Foundation. A new agreement was originated in October 2011, with an initial term of three months and two annual automatic renewal periods until the agreement expires in December 2013. In return, the Diocese will assess a quarterly service fee for the various expenses incurred by the Diocese on behalf of the Foundation. Total expenses incurred by the Diocese on behalf of the Foundation amounted to $226,417 and $179,659 for the years ended December 31, 2012 and 2011, respectively.

During the year ended December 31, 2012, the Foundation entered into a promissory note with the Diocese to fund the start-up of the Capital Campaign (Note 6). The amount of the note is $2,000,000 and accrues interest annually at a rate of 3%. The balance is payable in full on or prior to December 31, 2014.

During the year ended December 31, 2012, the Foundation also converted an amount, due to the Diocese for the Capital Campaign feasibility study, to a promissory note. The amount of the note is $70,000 and accrues interest annually at a rate of 3%. The balance is payable in full on or prior to December 31, 2014. It is intended that the Capital Campaign fundraising efforts will raise sufficient funds to cover the costs of this campaign at such time as the actual fundraising redemptions occur. In the event that the Capital Campaign does not proceed or fails to generate sufficient funds to repay the aforementioned notes or advances, the Foundation will not be required to repay the amounts due.

During the year ended December 31, 2012, the aforementioned promissory notes accrued interest in the amount of $53,162 (Note 7).

NOTE 12 - RELATED PARTY TRANSACTION

An endowment fund has been established in the name of the Hagan Family Scholarship Endowment Fund. The trustee of the fund served on the Foundation board of directors during the years ended December 31, 2012 and 2011.