



THE ORANGE CATHOLIC FOUNDATION

Financial Statements
Year Ended December 31, 2015
(With Summarized Comparative Information for the Year Ended December 31, 2014)
(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, (a non-profit organization) (the "Foundation"), which comprise the statement of financial position as of December 31, 2015, and the related statement of activities and changes in net assets, 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.

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, 2015, and the changes in their net assets and their 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 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated March 16, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.



May 12, 2016

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

THE ORANGE CATHOLIC FOUNDATION

**Statements of Financial Position
December 31, 2015 and 2014**

ASSETS

	<u>2015</u>	<u>2014</u>
Cash and cash equivalents	\$ 16,128,225	\$ 13,288,202
Investments (Note 2)	22,902,858	21,839,715
Accounts receivable, net	222,322	180,552
Pledges receivable, net (Notes 2 and 3)	32,928,341	49,131,852
Prepaid expenses and other assets	112,967	182,666
Property and equipment, net (Note 4)	<u>193,078</u>	<u>227,861</u>
 Total assets	 <u>\$ 72,487,791</u>	 <u>\$ 84,850,848</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts and grants payable and accrued liabilities (Note 8)	\$ 11,461,818	\$ 8,105,495
Notes payable - affiliate (Note 12)	1,000,000	1,000,000
Deferred contributions	<u>75,957</u>	<u>6,000</u>
Total liabilities	<u>12,537,775</u>	<u>9,111,495</u>

Net assets:

Unrestricted:		
Undesignated	1,870,791	1,170,375
Board-designated (Note 10)	<u>716,810</u>	<u>1,057,919</u>
	<u>2,587,601</u>	<u>2,228,294</u>
Temporarily restricted (Note 9)	35,715,645	52,550,980
Permanently restricted (Notes 9 and 11)	<u>21,646,770</u>	<u>20,960,079</u>
Total net assets	<u>59,950,016</u>	<u>75,739,353</u>
 Total liabilities and net assets	 <u>\$ 72,487,791</u>	 <u>\$ 84,850,848</u>

See accompanying notes to financial statements

THE ORANGE CATHOLIC FOUNDATION

**Statement of Activities and Changes in Net Assets
Year Ended December 31, 2015**

(With summarized comparative information for the year ended December 31, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2015</u>	<u>2014</u>
Revenues and support:					
For Christ Forever Capital Campaign (Note 5):					
Campaign contributions	\$ --	\$ 1,355,604	\$ --	\$ 1,355,604	\$ 6,339,812
Pastoral Services Appeal revenue	--	--	--	--	101,000
Net revenues from For Christ Forever Capital Campaign	<u>--</u>	<u>1,355,604</u>	<u>--</u>	<u>1,355,604</u>	<u>6,440,812</u>
Christ Cathedral Capital Campaign (Note 6):					
Campaign contributions	--	2,416,157	--	2,416,157	21,100,700
Our Lady of La Vang Shrine contributions	--	897,800	--	897,800	--
Net revenues from Christ Cathedral Capital Campaign	<u>--</u>	<u>3,313,957</u>	<u>--</u>	<u>3,313,957</u>	<u>21,100,700</u>
Pastoral Services Appeal (Note 7):					
Pastoral Services Appeal revenue	9,579,305	48,500	--	9,627,805	8,476,184
Less parish rebates	(3,405,805)	--	--	(3,405,805)	(2,477,184)
Net revenues from Pastoral Services Appeal	<u>6,173,500</u>	<u>48,500</u>	<u>--</u>	<u>6,222,000</u>	<u>5,999,000</u>
Contributions	60,753	291,324	450,027	802,104	596,488
Special events - net of direct costs of \$135,802 and \$226,042, respectively	109,985	204,900	23,415	338,300	302,642
Administrative income	145,381	--	--	145,381	125,538
Investment income	2,577	21,659	187,339	211,575	244,620
Realized and unrealized gain (loss) on investments	(779)	(57,514)	(1,039,541)	(1,097,834)	1,299,790
Other changes in net assets	377,052	(2,229,940)	1,852,888	--	--
Other income	460,076	--	--	460,076	437,748
Net assets released from restrictions (Note 9)	<u>20,444,014</u>	<u>(19,783,825)</u>	<u>(660,189)</u>	<u>--</u>	<u>--</u>
	<u>21,599,059</u>	<u>(21,553,396)</u>	<u>813,939</u>	<u>859,602</u>	<u>3,006,826</u>
 Total revenues and support	 <u>27,772,559</u>	 <u>(16,835,335)</u>	 <u>813,939</u>	 <u>11,751,163</u>	 <u>36,547,338</u>

(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, 2015

(With summarized comparative information for the year ended December 31, 2014)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2015</u>	<u>2014</u>
Expenses:					
Program services:					
For Christ Forever Capital					
Campaign grants and expenses:					
Cathedral campus renovation	7,411,948	--	--	7,411,948	8,581,736
School and technology	536,090	--	--	536,090	1,022,600
Organ restoration	463,230	--	--	463,230	315,553
Parish share	2,348,592	--	--	2,348,592	3,635,459
Other campaign expenses (Note 3)	2,874,927	--	--	2,874,927	1,107,272
Total For Christ Forever Capital Campaign grants and expenses	<u>13,634,787</u>	<u>--</u>	<u>--</u>	<u>13,634,787</u>	<u>14,662,620</u>
Christ Cathedral Capital Campaign grants and expenses:					
Cathedral renovation	5,364,450	--	--	5,364,450	--
Organ restoration	80,000	--	--	80,000	--
Other campaign expenses (Note 3)	(89,968)	--	--	(89,968)	2,567,007
Total For Christ Cathedral Capital Campaign grants and expenses	<u>5,354,482</u>	<u>--</u>	<u>--</u>	<u>5,354,482</u>	<u>2,567,007</u>
Pastoral Services Appeal and other scholarships and grants	6,472,953	--	--	6,472,953	5,903,707
Pastoral services appeal and other program expenses	1,304,146	--	--	1,304,146	1,332,885
Total program services	<u>26,766,368</u>	<u>--</u>	<u>--</u>	<u>26,766,368</u>	<u>24,466,219</u>
Supporting services:					
General and administrative:					
Personnel expenses	150,017	--	--	150,017	125,306
Administrative expenses - general	75,192	--	127,248	202,440	178,224
Administrative expenses - For Christ Forever	43,110	--	--	43,110	80,207
Administrative expenses - Christ Cathedral	11,028	--	--	11,028	5,285
Administrative expenses - Pastoral Services					
Appeal and other scholarships and grants	34,162	--	--	34,162	26,800
Professional fees	24,409	--	--	24,409	45,573
Fundraising expenses:					
Fundraising expenses - general	162,169	--	--	162,169	176,406
Fundraising expenses - For Christ Forever	84,318	--	--	84,318	175,219
Fundraising expenses - Christ Cathedral	28,723	--	--	28,723	21,187
Fundraising expenses - Pastoral Services					
Appeal and other scholarships and grants	33,756	--	--	33,756	34,515
Total supporting services	<u>646,884</u>	<u>--</u>	<u>127,248</u>	<u>774,132</u>	<u>868,722</u>
Total expenses	<u>27,413,252</u>	<u>--</u>	<u>127,248</u>	<u>27,540,500</u>	<u>25,334,941</u>
Change in net assets	359,307	(16,835,335)	686,691	(15,789,337)	11,212,397
Net assets, beginning of year	2,228,294	52,550,980	20,960,079	75,739,353	64,526,956
Net assets, end of year	<u>\$ 2,587,601</u>	<u>\$ 35,715,645</u>	<u>\$ 21,646,770</u>	<u>\$ 59,950,016</u>	<u>\$ 75,739,353</u>

See accompanying notes to financial statements

THE ORANGE CATHOLIC FOUNDATION

**Statements of Cash Flows
Years Ended December 31, 2015 and 2014**

	<u>2015</u>	<u>2014</u>
Cash flows from operating activities:		
Change in net assets	\$ (15,789,337)	\$ 11,212,397
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Realized and unrealized loss (gain) on investments	1,097,834	(1,299,790)
Contributions restricted for long-term purposes	--	(2,753,940)
Depreciation	36,477	36,762
(Increase) decrease in:		
Accounts receivable, net	(41,770)	(149,778)
Pledges receivable, net	16,203,511	(6,315,534)
Prepaid expenses and other assets	69,699	(98,307)
Increase (decrease) in:		
Accounts and grants payable and accrued liabilities	3,356,323	(1,199,517)
Deferred contributions	69,957	(7,050)
Net cash (used in) provided by operating activities	<u>5,002,694</u>	<u>(574,757)</u>
Cash flows from investing activities:		
Purchases of investments	(3,195,837)	(4,698,986)
Proceeds from sale of investments	1,034,860	694,874
Purchases of property and equipment	(1,694)	(12,752)
Net cash (used in) investing activities	<u>(2,162,671)</u>	<u>(4,016,864)</u>
Cash flows from financing activities:		
Contributions restricted for long-term purposes	--	2,753,940
Net cash provided by financing activities	<u>--</u>	<u>2,753,940</u>
Net increase (decrease) in cash and cash equivalents	2,840,023	(1,837,681)
Cash and cash equivalents:		
Beginning of year	<u>13,288,202</u>	<u>15,125,883</u>
End of year	<u>\$ 16,128,225</u>	<u>\$ 13,288,202</u>

See accompanying notes to financial statements

THE ORANGE CATHOLIC FOUNDATION

Notes to Financial Statements December 31, 2015 and 2014

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization - The Orange Catholic Foundation (the “Foundation”) is a California non-profit religious corporation organized to receive charitable 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. The specific purposes of the Foundation are to carry out works of piety, of the apostolate, and/or of charity, spiritual, or temporal, within the meaning of canon 114, § 2 of the Codex iuris canonici promulgated by the Supreme Pontiff of the Roman Catholic Church, His Holiness, Pope John Paul II on January 25, 1983 by the Apostolic Constitution Sacrae disciplinae leges, or corresponding section of any future code of canon law promulgated by the Supreme Pontiff of the Roman Catholic Church, as interpreted by the incumbent Bishop of the Roman Catholic Diocese of Orange in California (the “Code of Canon Law”).

This Foundation shall be operated in strict conformity with the disciplines, doctrines, and teachings of the Roman Catholic Church and promulgated by the Holy See, including the Code of Canon Law. In all such matters involving the teachings of the Roman Catholic Church, this Foundation shall rely upon and defer to the ecclesiastical communion with the Bishop of Rome, the Supreme Pontiff of the Roman Catholic Church. These purposes conform to the requirements of the Internal Revenue Code (“IRC”) section 501(c)(3).

In order to carry out its religious purposes, the Foundation shall have all powers granted to a non-profit religious corporation under California law and to a private juridic person and autonomous pious foundation under the Code of Canon law. The Foundation makes annual grants to such organizations at such times and in such amounts to carry out its charitable and religious purposes for the benefit of the Roman Catholic Church in the Diocese of Orange, California as its Board of Directors shall determine according to donor intent.

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.

(Note 1 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)
December 31, 2015 and 2014****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Presentation (Continued) - 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.

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 realized or unrealized gain or loss on investments in the statement of activities and changes in net assets. 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.

(Note 1 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)
December 31, 2015 and 2014****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

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 expected to be 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.

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.

Custodial 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 the parish. 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. The Foundation had no such funds on deposit as of December 31, 2015 and 2014.

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 pass-through funds under the custody of the Foundation amounted to \$483,837 and \$1,227,434 as of December 31, 2015 and 2014, respectively.

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, 2015 and 2014.

(Note 1 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)
December 31, 2015 and 2014****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 \$32,073 and \$27,961 recorded as contribution income and general and administrative and fundraising expense in the statement of activities and changes in net assets, for the years ended December 31, 2015 and 2014, 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, 2015 and 2014****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.

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

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)
December 31, 2015 and 2014****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fair Value Measurements (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 registered and non-registered 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's Level 2 investments include certificates of deposits.
- 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's Level 3 assets include pledges receivable.

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 for 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.

Reclassifications - The summarized financial statements for the year ended December 31, 2014 reflect certain reclassifications, which have no effect on total net assets or changes in net assets, to conform to classifications adopted at December 31, 2015.

Subsequent Events - The Foundation evaluated subsequent events through May 12, 2016, the date these financial statements were available to be issued. Except for the event described in Note 12, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

THE ORANGE CATHOLIC FOUNDATION

**Notes to Financial Statements
(Continued)
December 31, 2015 and 2014**

NOTE 2 - ASSETS RECORDED AT FAIR VALUE

Investments as of December 31, 2015 and 2014 consist of mutual funds and certificates of deposit. It is the Foundation's Gift Acceptance Policy to generally liquidate gifted securities upon receipt.

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of December 31, 2015 and 2014:

	<i>Assets at Fair Value as of December 31, 2015</i>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds:				
Balanced funds	\$ 1,064,452	\$ --	\$ --	\$ 1,064,452
Domestic stock funds	9,301,753	--	--	9,301,753
International funds	3,163,744	--	--	3,163,744
Fixed income funds	8,918,872	--	--	8,918,872
	<u>22,448,821</u>	<u>--</u>	<u>--</u>	<u>22,448,821</u>
Certificates of deposit	--	454,037	--	454,037
Total investments	<u>22,448,821</u>	<u>454,037</u>	<u>--</u>	<u>22,902,858</u>
Pledges receivable	--	--	32,928,341	32,928,341
	<u>\$ 22,448,821</u>	<u>\$ 454,037</u>	<u>\$ 32,928,341</u>	<u>\$ 55,831,199</u>
	<i>Assets at Fair Value as of December 31, 2014</i>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds:				
Balanced funds	\$ 13,276,779	\$ --	\$ --	\$ 13,276,779
Domestic stock funds	8,111,350	--	--	8,111,350
	<u>21,388,129</u>	<u>--</u>	<u>--</u>	<u>21,388,129</u>
Certificates of deposit	--	451,586	--	451,586
Total investments	<u>21,388,129</u>	<u>451,586</u>	<u>--</u>	<u>21,839,715</u>
Pledges receivable	--	--	49,131,852	49,131,852
	<u>\$ 21,388,129</u>	<u>\$ 451,586</u>	<u>\$ 49,131,852</u>	<u>\$ 70,971,567</u>

(Note 2 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION

**Notes to Financial Statements
(Continued)
December 31, 2015 and 2014**

NOTE 2 - ASSETS RECORDED AT FAIR VALUE (Continued)

Level 3 Gains and Losses

The following table sets forth a summary of changes in the fair value of the Plan's Level 3 assets for the years ended December 31, 2015 and 2014:

	<i>Pledges Receivable</i>	
	<u>2015</u>	<u>2014</u>
Balance, beginning of year	\$ 49,131,852	\$ 42,816,318
New For Christ Forever pledges	907,106	6,016,759
For Christ Forever payments received	(12,793,740)	(18,081,040)
New Christ Cathedral pledges	3,194,549	21,100,000
Christ Cathedral payments received	(5,575,550)	(28,000)
Pledges written-off as uncollectible	(719,616)	(555,252)
Change in allowance for uncollectible pledges	(1,523,701)	(1,822,873)
Change in present value discount amount	<u>307,441</u>	<u>(314,060)</u>
Balance, end of year	<u><u>\$ 32,928,341</u></u>	<u><u>\$ 49,131,852</u></u>

Investment income for the years ended December 31, 2015 and 2014 is summarized as follows:

	<i>Years Ended December 31,</i>	
	<u>2015</u>	<u>2014</u>
Interest and dividend income	\$ 211,575	\$ 244,620
Realized and unrealized (loss) gain	<u>(1,097,834)</u>	<u>1,299,790</u>
	<u><u>\$ (886,259)</u></u>	<u><u>\$ 1,544,410</u></u>

THE ORANGE CATHOLIC FOUNDATION

**Notes to Financial Statements
(Continued)
December 31, 2015 and 2014**

NOTE 3 - PLEDGES RECEIVABLE

Pledges receivable as of December 31, 2015 and 2014, all of which are related to the For Christ Forever Capital Campaign (Note 5) and Christ Cathedral Capital Campaign (Note 6) include amounts that have been discounted at rates ranging from 0.65% to 2.09% are as follows:

	<u>2015</u>	<u>2014</u>
Amounts due in:		
Less than one year	\$ 18,486,452	\$ 18,376,223
One to five years	18,577,170	30,624,995
Greater than five years	<u>3,538,171</u>	<u>6,587,824</u>
Total pledges	40,601,793	55,589,042
Less:		
Discount to present value	(407,411)	(714,851)
Reserve for uncollectible pledges	<u>(7,266,041)</u>	<u>(5,742,339)</u>
	<u>\$ 32,928,341</u>	<u>\$ 49,131,852</u>

During the years ended December 31, 2015 and 2014, the Foundation recognized expense related to reserves for potentially uncollectible For Christ Forever Capital Campaign pledges totaling \$2,546,114 and \$290,926, respectively, which have been included in For Christ Forever Capital Campaign Other Campaign Expenses in the Statements of Activities and Changes in Net Assets.

During the year ended December 31, 2015, the Foundation recognized a gain of \$206,159 from decreasing the reserves for potentially uncollectible Christ Cathedral Capital Campaign pledges. During the year ended December 31, 2014, the Foundation recognized expense related to reserves for potentially uncollectible Christ Cathedral Capital Campaign pledges totaling \$2,087,200. The aforementioned changes have been included in Christ Cathedral Capital Campaign Other Campaign Expenses in the Statements of Activities and changes in Net Assets.

THE ORANGE CATHOLIC FOUNDATION

**Notes to Financial Statements
(Continued)
December 31, 2015 and 2014**

NOTE 4 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2015 and 2014 consists of the following:

	2015	2014
Office furniture and computer equipment	\$ 182,073	\$ 180,379
Leasehold improvements	177,116	177,116
	359,189	357,495
Less accumulated depreciation	(166,111)	(129,634)
	\$ 193,078	\$ 227,861

Depreciation expense for the years ended December 31, 2015 and 2014 was \$36,477 and \$36,762, respectively.

NOTE 5 - FOR CHRIST FOREVER CAPITAL CAMPAIGN

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 (the For Christ Forever Capital Campaign) 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 For Christ Forever Capital Campaign (Phases I and II) and receive gifts, grants, contributions and bequests from individuals and foundations for the purpose of supporting the renovation of the Christ Cathedral campus, Catholic education, retired priests, diocesan ministries and local parishes and centers.

As gifts, grants, contributions and bequests are received by the Foundation for the For Christ Forever 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 For Christ Forever Capital Campaign goals and as approved by the Foundation's Board of Directors or as shall be required by a donor.

(Note 5 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)
December 31, 2015 and 2014****NOTE 5 - FOR CHRIST FOREVER CAPITAL CAMPAIGN (Continued)**

A Diocesan-wide leadership phase of the For Christ Forever Capital Campaign began in February 2012 and continued through 2015. The Diocesan-wide parish phase of the For Christ Forever Capital Campaign began in 2013 with 62 Diocesan parishes and centers split into fundraising blocks. Parish financial goals were determined using a formula based on three year average ordinary income plus 2013 Pastoral Services Appeal (PSA) Goal (Note 7). A part of each parish's financial target included its portion of the PSA for 2013.

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 its 2013 PSA Goal and receives 25% of the net funds collected above their 2013 PSA Goal. If a Good Faith Effort parish exceeds its Total Diocesan Capital Campaign Goal in cash it receives 50% of funds raised above and beyond its Total Diocesan Capital Campaign Goal. A maximum allocations cap applies to parish donors who have pledged more than \$50,000 to the For Christ Forever Capital Campaign. A parish selecting the piggyback campaign ran its own campaign and guaranteed 75% of its Total Diocesan Capital Campaign Goal plus its PSA Goal for 2013.

In general, For Christ Forever Capital Campaign revenues are temporarily restricted until they are expended for For Christ Forever Capital Campaign purposes. Total For Christ Forever Capital Campaign revenue amounted to \$1,355,604 and \$6,440,812 for the years ended December 31, 2015 and 2014, respectively. The revenues for the years ended December 31, 2015 and 2014 were offset by parish shares of \$2,348,592 and \$3,635,459, respectively. The amount due to parishes included in accounts and grants payable and accrued expenses at December 31, 2015 and 2014 was \$732,615 and \$896,406, respectively (Note 8).

A portion of the For Christ Forever Capital Campaign revenue is permanently restricted in accordance with the Capital Campaign Services Agreement. Investment earnings from such funds are to be used in support of Catholic education and retired priests. During the year ended December 31, 2015, no amounts were recorded as permanently restricted revenues for the For Christ Forever Capital Campaign, however, amounts totaling \$1,823,992, which previously recorded as temporarily restricted pledge revenues and were received in cash during the year ended December 31, 2015 were transferred to permanently restricted endowments in accordance with the Capital Campaign Services Agreement. Of the amounts transferred to permanently restricted endowments, \$1,625,493 was endowed to School Financial Assistance Endowment Fund and \$198,499 was endowed to Retired Priests Endowment Fund.

(Note 5 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)
December 31, 2015 and 2014****NOTE 5 - FOR CHRIST FOREVER CAPITAL CAMPAIGN (Continued)**

During the year ended December 31, 2014, permanently restricted For Christ Forever Capital Campaign revenues totaled \$2,753,940, \$1,255,305 of which was endowed to the School Financial Assistance Endowment Fund, \$257,091 of which was endowed to the Retired Priest Endowment Fund, \$1,200,000 was endowed to the Aregger Family Tuition Assistance Endowment Fund for Holy Family, \$18,750 of which was endowed to the Cisneros Family Endowment Fund, and \$22,794 of which was endowed to the Christ Cathedral Facilities Endowment Fund.

NOTE 6 - CHRIST CATHEDRAL CAPITAL CAMPAIGN

In June of 2014, the Foundation launched a separate leadership gifts phase (Phase III of the For Christ Forever Capital Campaign, also known as Capstone Campaign) specifically to raise funds for the renovation of the Christ Cathedral. The "Christ Cathedral Capital Campaign" exclusively supports the restoration and renovation of the Christ Cathedral and is focused on restricted gifts to complete the requisite funding of the Christ Cathedral development plans. Total revenues amounted to \$3,313,957 and \$21,100,700 for the years ending December 31, 2015 and 2014, respectively. During the year ending December 31, 2015, revenues totaling \$897,800 were recognized through the Christ Cathedral Capital Campaign in support of building a future shrine dedicated to Our Lady of La Vang at the Christ Cathedral campus.

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

NOTE 7 - PASTORAL SERVICES APPEAL

The Pastoral Services Appeal (PSA) is an annual fundraising appeal of the Orange Catholic Foundation that raises funds for the benefit of The Roman Catholic Bishop of Orange that are granted to the Diocese of Orange for financial support of selected diocesan pastoral ministries and services which serve thousands of people throughout Orange County. Net revenues from the Pastoral Services Appeal (PSA) to the Foundation were limited to gifts made by parishioners up to the total of the goals for all parishes. Parish goals were 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 were returned to that parish and were reported on the statement of activities and changes in net assets 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. During the years ended December 31, 2015 and 2014, total PSA revenue of \$9,627,805 and \$8,476,184, respectively, was offset by parish rebates of \$3,405,805 and \$2,477,184, respectively. The amount due to parishes included in accounts and grants payable and accrued expenses at December 31, 2015 and 2014 was \$728,329 and \$650,563 (Note 8).

THE ORANGE CATHOLIC FOUNDATION

**Notes to Financial Statements
(Continued)
December 31, 2015 and 2014**

NOTE 8 - ACCOUNTS AND GRANTS PAYABLE AND ACCRUED LIABILITIES

Accounts and grants payable and accrued liabilities consist of the following at December 31, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Grants due for Cathedral campus and organ renovation	\$ 8,173,334	\$ 4,726,345
Tuition assistance grants due to Catholic Schools	797,977	795,186
PSA grants due to Diocesan ministries and Catholic Affiliates	843,675	827,500
Catholic related causes, activities and programs	25,457	40,489
For Christ Forever parish share (Note 5)	732,615	896,406
PSA rebates (Note 7)	728,329	650,563
Salaries and wages	31,673	30,453
Vacation	68,507	64,683
Interest (Note 12)	20,833	833
Other	39,418	73,037
	<u>\$ 11,461,818</u>	<u>\$ 8,105,495</u>

NOTE 9 - NET ASSETS

Temporarily restricted net assets at December 31, 2015 and 2014 consist of the following:

	<u>2015</u>	<u>2014</u>
For Christ Forever Capital Campaign	\$ 17,424,299	\$ 31,766,042
Christ Cathedral Capital Campaign	16,397,595	18,495,064
Pastoral Services Appeal	56,037	29,628
Tuition assistance and grants to various parishes, schools and Catholic related causes	1,837,714	2,260,246
	<u>\$ 35,715,645</u>	<u>\$ 52,550,980</u>

(Note 9 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION

**Notes to Financial Statements
(Continued)
December 31, 2015 and 2014**

NOTE 9 - NET ASSETS (Continued)

Temporarily restricted net assets were released during the year ended December 31, 2015 and 2014 for the following purposes:

	<u>2015</u>	<u>2014</u>
For Christ Forever Capital Campaign	\$ 13,806,499	\$ 11,346,878
Christ Cathedral Capital Campaign	5,412,313	--
Pastoral Services Appeal	22,095	21,370
Tuition assistance and grants to various parishes, Schools and Catholic related causes	<u>542,918</u>	<u>583,860</u>
	<u>\$ 19,783,825</u>	<u>\$ 11,952,108</u>

Permanently restricted net assets as of December 31, 2015 and 2014 are restricted to investment in perpetuity, the income from which is expendable to support:

	<u>2015</u>	<u>2014</u>
Parishes, retired priests, cathedral maintenance, and school endowment	<u>\$ 21,646,770</u>	<u>\$ 20,960,079</u>

NOTE 10 - 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 technology upgrades, faith formation, and education. Additions to the reserve including interest earned and unrealized gains totaled \$442,461 and \$982,941 during the years ended December 31, 2015 and 2014, respectively. The reserve was reduced by \$783,570 and \$598,643 for grants during the years ended December 31, 2015 and 2014, respectively.

THE ORANGE CATHOLIC FOUNDATION

**Notes to Financial Statements
(Continued)
December 31, 2015 and 2014**

NOTE 11 - 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.

The Foundation's endowment consists of 41 individual funds established for a variety of purposes.

Changes in Endowment Net Assets for the Years Ending December 31, 2015 and 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, December 31, 2013	\$ --	\$ 175,266	\$ 16,841,223	\$ 17,016,489
Contributions	--	--	3,226,592	3,226,592
Investment return:				
Investment income	--	7,502	225,944	233,446
Realized and unrealized gain on investments	--	38,341	1,233,867	1,272,208
Appropriation of endowment for expenditure	604,947	(37,400)	(567,547)	--
Expenditure of appropriated funds	<u>(604,947)</u>	<u>--</u>	<u>--</u>	<u>(604,947)</u>
Endowment net assets, December 31, 2014	--	183,709	20,960,079	21,143,788
Contributions	--	--	473,442	473,442
Investment return:				
Investment income	--	5,498	187,339	192,837
Realized and unrealized (loss) on investments	--	(28,333)	(1,039,541)	(1,067,874)
Other changes in endowment net assets	--	--	1,852,888	1,852,888
Appropriation of endowment for expenditure	813,570	(26,133)	(787,437)	--
Expenditure of appropriated funds	<u>(813,570)</u>	<u>--</u>	<u>--</u>	<u>(813,570)</u>
Endowment net assets, December 31, 2015	<u>\$ --</u>	<u>\$ 134,741</u>	<u>\$ 21,646,770</u>	<u>\$ 21,781,511</u>

(Note 11 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)
December 31, 2015 and 2014****NOTE 11 - 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, 2015 and 2014.

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 Foundation must hold in perpetuity. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a morally and ethically responsible manner, as reasonably as possible, 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 up to 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
(Continued)
December 31, 2015 and 2014**

NOTE 12 - TRANSACTIONS WITH AFFILIATE AND SUBSEQUENT EVENT

In November 2008, the Foundation entered into a service agreement with the Roman Catholic Bishop of Orange whereby the Diocese of Orange provides human resources and risk management services to the Foundation. A new agreement was originated in October 2011, with an initial term of fifteen months and an annual automatic renewal period. Services, including the leasing of office space, continued to be rendered on an annual basis through December 31, 2015. During the years ended December 31, 2015 and 2014, the Foundation incurred rent expense and reimbursable administrative expenses through its services arrangement with the Diocese of Orange totaling \$217,860 and \$276,547 for the years ended December 31, 2015 and 2014, respectively.

In April 2016, the Foundation signed four new services agreements with the Diocese of Orange that are retroactively effective to January 1, 2016. The Administrative Services Agreement outlines services such as human resources and risk management that the Diocese of Orange will provide to the Foundation. The Management Services Agreement outlines the fundraising and stewardship services the Foundation will provide to the Diocese of Orange. The Capital Campaign Services Agreement defines additional capital campaign services the Foundation will provide to the Diocese of Orange. The Gift Administration Services Agreement defines gift administration services the Foundation will provide to the Diocese of Orange, and its parishes and schools, as well as outlines estate, trust and other complex gift administration services the Foundation will provide to the Diocese of Orange. The services agreements are scheduled to automatically renew on January 1st of each subsequent year, unless either party provides notice of change or termination at least 90 days prior to the renewal date.

The Administrative Services Agreement includes a separate non-cancelable lease agreement for the rental of Foundation's main office space. The lease agreement provides for monthly rents of \$5,122 plus a pro rata portion of certain facilities costs. The agreement has an original maturity date of October 2023, and allows for one additional five year extension to October 2028. As of December 31, 2015, the Foundation's future minimum annual lease commitment under the lease agreement is as follows:

Years ending December 31:		
2016	\$	61,464
2017		61,464
2018		61,464
2019		61,464
2020		61,464
Thereafter		<u>174,148</u>
Total future minimum lease payments	\$	<u><u>481,468</u></u>

(Note 12 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements****(Continued)****December 31, 2015 and 2014****NOTE 12 - TRANSACTIONS WITH AFFILIATE AND SUBSEQUENT EVENT****(Continued)**

During the year ended December 31, 2014, the Foundation entered into a \$1,000,000 promissory note with the Diocese of Orange to fund the start-up of the Christ Cathedral Capital Campaign (Note 6). The note accrues interest at a rate of 2% and is scheduled to be paid in full during the year ended December 31, 2019. The outstanding balance on the note was \$1,000,000 as of December 31, 2015.

During the year ended December 31, 2012, the Foundation entered into a \$2,000,000 promissory note with the Diocese of Orange to fund the start-up of the For Christ Forever Capital Campaign (Note 5). The note accrued interest at a rate of 3% and was paid in full during the year ended December 31, 2014.

During the years ended December 31, 2015 and 2014, the Foundation recorded interest expense on the aforementioned promissory notes in the amount of \$20,000 and \$28,368, respectively.