



**THE ORANGE CATHOLIC FOUNDATION**

**Financial Statements**  
**Year Ended December 31, 2016**  
**(With Summarized Comparative Information for the Year Ended December 31, 2015)**  
**(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, 2016, 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, 2016, 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 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated May 12, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015 is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Kushner Smith Joanou ; Gregson, LLP*

May 23, 2017

**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, 2016 and 2015**

**ASSETS**

	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 19,629,986	\$ 16,128,225
Investments (Note 2)	25,795,611	22,902,858
Accounts receivable, net	20,615	222,322
Pledges receivable, net (Notes 2 and 3)	24,908,825	32,928,341
Prepaid expenses and other assets	104,429	112,967
Property and equipment, net (Note 4)	<u>164,786</u>	<u>193,078</u>
 Total assets	 <u>\$ 70,624,252</u>	 <u>\$ 72,487,791</u>

**LIABILITIES AND NET ASSETS**

Liabilities:

Accounts and grants payable and accrued liabilities (Note 8)	\$ 12,915,733	\$ 11,461,818
Notes payable - affiliate (Note 12)	1,000,000	1,000,000
Deferred contributions	<u>74,194</u>	<u>75,957</u>
Total liabilities	<u>13,989,927</u>	<u>12,537,775</u>

Net assets:

Unrestricted:		
Undesignated	1,619,635	1,870,791
Board-designated (Note 10)	<u>1,478,625</u>	<u>716,810</u>
	<u>3,098,260</u>	<u>2,587,601</u>
Temporarily restricted (Note 9)	30,130,367	35,715,645
Permanently restricted (Notes 9 and 11)	<u>23,405,698</u>	<u>21,646,770</u>
Total net assets	<u>56,634,325</u>	<u>59,950,016</u>
 Total liabilities and net assets	 <u>\$ 70,624,252</u>	 <u>\$ 72,487,791</u>

See accompanying notes to financial statements

**THE ORANGE CATHOLIC FOUNDATION**

**Statement of Activities and Changes in Net Assets  
Year Ended December 31, 2016**

**(With summarized comparative information for the year ended December 31, 2015)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>	
				<u>2016</u>	<u>2015</u>
Revenues and support:					
For Christ Forever Capital Campaign (Note 5):					
Campaign contributions	\$ --	\$ 3,658,206	\$ --	\$ 3,658,206	\$ 1,355,604
Christ Cathedral Capital Campaign (Note 6):					
Campaign contributions	--	2,942,433	--	2,942,433	2,416,157
Our Lady of La Vang Shrine contributions	--	1,020,030	--	1,020,030	897,800
Net revenues from Christ Cathedral Capital Campaign	--	3,962,463	--	3,962,463	3,313,957
Pastoral Services Appeal (Note 7):					
Pastoral Services Appeal revenue	10,496,558	36,608	--	10,533,166	9,627,805
Less parish rebates	(4,171,118)	--	--	(4,171,118)	(3,405,805)
Net revenues from Pastoral Services Appeal	6,325,440	36,608	--	6,362,048	6,222,000
Contributions	348,435	1,811,507	342,161	2,502,103	802,104
Special events - net of direct costs of \$158,248 and \$135,802, respectively	160,616	288,601	--	449,217	338,300
Administrative income	248,200	--	--	248,200	145,381
Investment income	10,214	28,409	279,664	318,287	211,575
Realized and unrealized gain (loss) on investments	1,359	121,108	1,491,077	1,613,544	(1,097,834)
Other changes in net assets	93,934	(603,974)	510,040	--	--
Other income	503,956	--	--	503,956	460,076
Net assets released from restrictions (Note 9)	15,595,157	(14,888,206)	(706,951)	--	--
	<u>16,961,871</u>	<u>(13,242,555)</u>	<u>1,915,991</u>	<u>5,635,307</u>	<u>859,602</u>
Total revenues and support	<u>23,287,311</u>	<u>(5,585,278)</u>	<u>1,915,991</u>	<u>19,618,024</u>	<u>11,751,163</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, 2016**

**(With summarized comparative information for the year ended December 31, 2015)**

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	
				2016	2015
Expenses:					
Program services:					
For Christ Forever Capital					
Campaign grants and expenses:					
Cathedral campus renovation	4,688,289	--	--	4,688,289	7,411,948
School and technology	4,214,733	--	--	4,214,733	536,090
Organ restoration	124,138	--	--	124,138	463,230
Parish share	1,720,332	--	--	1,720,332	2,348,592
Administrative and fundraising	500,061	--	--	500,061	688,591
Changes in allowance and discount (Note 3)	(743,145)	--	--	(743,145)	2,313,764
	<u>10,504,408</u>	<u>--</u>	<u>--</u>	<u>10,504,408</u>	<u>13,762,215</u>
Christ Cathedral Capital Campaign					
grants and expenses:					
Cathedral renovation	2,757,722	--	--	2,757,722	5,364,450
Organ restoration	--	--	--	--	80,000
Administrative and fundraising	883,315	--	--	883,315	230,943
Changes in allowance and discount (Note 3)	(50,048)	--	--	(50,048)	(281,160)
	<u>3,590,989</u>	<u>--</u>	<u>--</u>	<u>3,590,989</u>	<u>5,394,233</u>
Pastoral Services Appeal grants and expenses:					
Grants	4,558,993	--	--	4,558,993	4,463,295
Administrative and fundraising	674,771	--	--	674,771	1,138,813
Changes in allowance and discount	18,209	--	--	18,209	--
	<u>5,251,973</u>	<u>--</u>	<u>--</u>	<u>5,251,973</u>	<u>5,602,108</u>
Parish and school development support:					
Grants	1,992,561	--	--	1,992,561	2,009,658
Administrative and fundraising	593,127	--	157,063	750,190	360,499
	<u>2,585,688</u>	<u>--</u>	<u>157,063</u>	<u>2,742,751</u>	<u>2,370,157</u>
Total program services	<u>21,933,058</u>	<u>--</u>	<u>157,063</u>	<u>22,090,121</u>	<u>27,128,713</u>
Supporting services:					
General and administrative	586,890	--	--	586,890	249,618
Fundraising expenses	256,704	--	--	256,704	162,169
Total supporting services	<u>843,594</u>	<u>--</u>	<u>--</u>	<u>843,594</u>	<u>411,787</u>
Total expenses	<u>22,776,652</u>	<u>--</u>	<u>157,063</u>	<u>22,933,715</u>	<u>27,540,500</u>
Change in net assets	510,659	(5,585,278)	1,758,928	(3,315,691)	(15,789,337)
Net assets, beginning 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>
Net assets, end of year	<u>\$ 3,098,260</u>	<u>\$ 30,130,367</u>	<u>\$ 23,405,698</u>	<u>\$ 56,634,325</u>	<u>\$ 59,950,016</u>

See accompanying notes to financial statements

**THE ORANGE CATHOLIC FOUNDATION**

**Statements of Cash Flows  
Years Ended December 31, 2016 and 2015**

	<b>2016</b>	<b>2015</b>
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ (3,315,691)	\$ (15,789,337)
Adjustments to reconcile change in net assets to net cash (used in) provided by operating activities		
Realized and unrealized loss (gain) on investments	(1,613,544)	1,097,834
Depreciation	36,710	36,477
(Increase) decrease in:		
Accounts receivable, net	201,707	(41,770)
Pledges receivable, net	8,019,516	16,203,511
Prepaid expenses and other assets	8,538	69,699
Increase (decrease) in:		
Accounts and grants payable and accrued liabilities	1,453,915	3,356,323
Deferred contributions	(1,763)	69,957
Net cash (used in) provided by operating activities	4,789,388	5,002,694
<b>Cash flows from investing activities:</b>		
Purchases of investments	(2,458,730)	(3,195,837)
Proceeds from sale of investments	1,179,521	1,034,860
Purchases of property and equipment	(8,418)	(1,694)
Net cash (used in) investing activities	(1,287,627)	(2,162,671)
Net increase in cash and cash equivalents	3,501,761	2,840,023
Cash and cash equivalents:		
Beginning of year	16,128,225	13,288,202
End of year	\$ 19,629,986	\$ 16,128,225

See accompanying notes to financial statements

## THE ORANGE CATHOLIC FOUNDATION

### Notes to Financial Statements December 31, 2016 and 2015

#### 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, 2016 and 2015****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, 2016 and 2015****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 and amortization. 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.

**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 \$915,282 and \$483,837 as of December 31, 2016 and 2015, 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, 2016 and 2015.

(Note 1 continued on the following page)

**THE ORANGE CATHOLIC FOUNDATION****Notes to Financial Statements  
(Continued)  
December 31, 2016 and 2015****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 \$37,166 and \$32,073 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, 2016 and 2015, 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, 2016 and 2015****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. Due to the nature of the services provided by the Foundation, certain administrative and fundraising expenses that are incurred for the direct benefit of a program or campaign managed by the Foundation, have been reported with program services. Only those supporting expenses incurred for the administration and furtherance of the Foundation itself, are reported as supporting services in the accompanying statement of activities and changes in net assets.

**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.

(Note 1 continued on the following page)

**THE ORANGE CATHOLIC FOUNDATION****Notes to Financial Statements  
(Continued)  
December 31, 2016 and 2015****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, 2015 reflect certain reclassifications, which have no effect on total net assets or changes in net assets, to conform to classifications adopted as of December 31, 2016.

**Subsequent Events** - The Foundation evaluated subsequent events through May 23, 2017, the date these financial statements were available to be issued. 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, 2016 and 2015**

**NOTE 2 - ASSETS RECORDED AT FAIR VALUE**

Investments as of December 31, 2016 and 2015 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, 2016 and 2015:

	<u>Assets at Fair Value as of December 31, 2016</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds:				
Balanced funds	\$ 1,340,545	\$ --	\$ --	\$ 1,340,545
Domestic stock funds	11,092,707	--	--	11,092,707
International funds	3,352,139	--	--	3,352,139
Fixed income funds	9,553,901	--	--	9,553,901
	<u>25,339,292</u>	<u>--</u>	<u>--</u>	<u>25,339,292</u>
Certificates of deposit	--	456,319	--	456,319
Total investments	<u>25,339,292</u>	<u>456,319</u>	<u>--</u>	<u>25,795,611</u>
Pledges receivable	--	--	24,908,825	24,908,825
	<u>\$ 25,339,292</u>	<u>\$ 456,319</u>	<u>\$ 24,908,825</u>	<u>\$ 50,704,436</u>
	<u>Assets at Fair Value as of December 31, 2015</u>			
	<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>

(Note 2 continued on the following page)

**THE ORANGE CATHOLIC FOUNDATION**

**Notes to Financial Statements  
(Continued)  
December 31, 2016 and 2015**

**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, 2016 and 2015:

	<i>Pledges Receivable</i>	
	<u>2016</u>	<u>2015</u>
Balance, beginning of year	\$ 32,928,341	\$ 49,131,852
New For Christ Forever pledges	149,496	907,106
For Christ Forever payments received	(8,213,273)	(12,793,740)
New Christ Cathedral pledges	1,122,101	3,194,549
Christ Cathedral payments received	(1,083,707)	(5,575,550)
Pledges written-off as uncollectible	(4,172,334)	(719,616)
Change in allowance for uncollectible pledges	4,081,970	(1,523,701)
Change in present value discount amount	96,231	307,441
	<u>                    </u>	<u>                    </u>
Balance, end of year	\$ <u>24,908,825</u>	\$ <u>32,928,341</u>

Investment income for the years ended December 31, 2016 and 2015 is summarized as follows:

	<i>Years Ended December 31,</i>	
	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 318,287	\$ 211,575
Realized and unrealized gain (loss)	<u>1,613,544</u>	<u>(1,097,834)</u>
	<u>                    </u>	<u>                    </u>
	\$ <u>1,931,831</u>	\$ <u>(886,259)</u>

**THE ORANGE CATHOLIC FOUNDATION**

**Notes to Financial Statements  
(Continued)  
December 31, 2016 and 2015**

**NOTE 3 - PLEDGES RECEIVABLE**

Pledges receivable as of December 31, 2016 and 2015, 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 0.85% to 1.93% are as follows:

	<u>2016</u>	<u>2015</u>
Amounts due in:		
Less than one year	\$ 12,831,033	\$ 18,486,452
One to five years	15,498,579	18,577,170
Greater than five years	74,463	3,538,171
Total pledges	<u>28,404,075</u>	<u>40,601,793</u>
Less:		
Discount to present value	(311,179)	(407,411)
Reserve for uncollectible pledges	<u>(3,184,071)</u>	<u>(7,266,041)</u>
	<u>\$ 24,908,825</u>	<u>\$ 32,928,341</u>

During the year ended December 31, 2016, the Foundation recognized income from a reduction in the reserve for potentially uncollectible For Christ Forever Capital Campaign pledges of \$668,365. During the year ended December 31, 2015, the Foundation recognized expense related to reserves for potentially uncollectible For Christ Forever Capital Campaign pledges totaling \$2,546,114. The amounts have been included in For Christ Forever Capital Campaign Changes in allowance and discounts in the Statements of Activities and Changes in Net Assets.

During the years ended December 31, 2016 and 2015, the Foundation recognized income from reductions in the reserves for potentially uncollectible Christ Cathedral Capital Campaign pledges of \$28,597 and \$206,159, respectively. The amounts have been included in Christ Cathedral Capital Campaign Changes in allowance and discounts in the Statements of Activities and changes in Net Assets.

**THE ORANGE CATHOLIC FOUNDATION**

**Notes to Financial Statements  
(Continued)  
December 31, 2016 and 2015**

**NOTE 4 - PROPERTY AND EQUIPMENT**

Property and equipment at December 31, 2016 and 2015 consists of the following:

	<b>2016</b>	<b>2015</b>
Office furniture and computer equipment	\$ 190,491	\$ 182,073
Leasehold improvements	177,116	177,116
	367,607	359,189
 Less accumulated depreciation	 (202,821)	 (166,111)
	\$ 164,786	\$ 193,078

Depreciation expense for the years ended December 31, 2016 and 2015 was \$36,710 and \$36,477, 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, 2016 and 2015****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 \$3,658,206 and \$1,355,604 for the years ended December 31, 2016 and 2015, respectively. The revenues for the years ended December 31, 2016 and 2015 were offset by parish shares of \$1,720,332 and \$2,348,592, respectively. The amount due to parishes included in accounts and grants payable and accrued expenses at December 31, 2016 and 2015 was \$490,036 and \$732,615, 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 years ended December 31, 2016 and 2015, no amounts were recorded as permanently restricted revenues for the For Christ Forever Capital Campaign, however, amounts totaling \$312,465 and \$1,823,992, respectively, which were previously recorded as temporarily restricted pledge revenues and were received in cash during the year ended December 31, 2016 were transferred to permanently restricted endowments in accordance with the Capital Campaign Services Agreement. Of the amounts transferred to permanently restricted endowments during the years ended December 31, 2016 and 2015, \$266,845 and \$1,587,933, respectively, were endowed to School Financial Assistance Endowment Fund and \$154,299 and \$198,499, respectively, were endowed to Retired Priests Endowment Fund. Additional amounts transferred to permanently restricted endowments during the years ending December 31, 2016 and 2015, \$33,116 and \$62,500, respectively, were endowed to The Bishop Kevin W. Vann Marian Alliance Endowment Fund and \$25,000 and \$25,000, respectively, were endowed to Mater Dei Monarch Legacy Fund Cisneros Family Endowment Fund.

**THE ORANGE CATHOLIC FOUNDATION****Notes to Financial Statements  
(Continued)  
December 31, 2016 and 2015****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) 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 temporarily restricted gifts to complete the requisite funding of the Christ Cathedral development plans. Total revenues amounted to \$3,962,463 and \$3,313,957 for the years ending December 31, 2016 and 2015, respectively. During the years ending December 31, 2016 and 2015, revenues totaling \$1,020,030 and \$897,800, respectively, 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.

**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, 2016 and 2015, total PSA revenue of \$10,533,166 and \$9,627,805, respectively, was offset by parish rebates of \$4,171,118 and \$3,405,805, respectively. The amount due to parishes included in accounts and grants payable and accrued expenses at December 31, 2016 and 2015 was \$853,317 and \$728,329 (Note 8).

**THE ORANGE CATHOLIC FOUNDATION**

**Notes to Financial Statements  
(Continued)  
December 31, 2016 and 2015**

**NOTE 8 - ACCOUNTS AND GRANTS PAYABLE AND ACCRUED LIABILITIES**

Accounts and grants payable and accrued liabilities consist of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Grants due for Cathedral campus and organ renovation	\$ 9,392,140	\$ 8,173,334
Tuition assistance grants due to Catholic Schools	808,802	797,977
PSA grants due to Diocesan ministries and Catholic Affiliates	860,999	843,675
Information technology grant	61,132	--
Catholic related causes, activities and programs	7,544	25,457
For Christ Forever parish share (Note 5)	490,036	732,615
PSA rebates (Note 7)	853,317	728,329
Salaries and wages	46,316	31,673
Vacation	86,365	68,507
Interest (Note 12)	20,055	20,833
Other grants	200,150	--
Other accrued expenses	88,877	39,418
	<u>\$ 12,915,733</u>	<u>\$ 11,461,818</u>

**NOTE 9 - NET ASSETS**

Temporarily restricted net assets at December 31, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
For Christ Forever Capital Campaign	\$ 9,970,569	\$ 17,424,299
Christ Cathedral Capital Campaign	17,012,808	16,397,595
Pastoral Services Appeal	92,153	56,037
Tuition assistance and grants to various parishes, schools and Catholic related causes	3,054,837	1,837,714
	<u>\$ 30,130,367</u>	<u>\$ 35,715,645</u>

(Note 9 continued on the following page)

**THE ORANGE CATHOLIC FOUNDATION**

**Notes to Financial Statements  
(Continued)  
December 31, 2016 and 2015**

**NOTE 9 - NET ASSETS (Continued)**

Temporarily restricted net assets were released during the year ended December 31, 2016 and 2015 for the following purposes:

	<u>2016</u>	<u>2015</u>
For Christ Forever Capital Campaign	\$ 10,641,708	\$ 13,806,499
Christ Cathedral Capital Campaign	3,393,239	5,412,313
Pastoral Services Appeal	499	22,095
Tuition assistance and grants to various parishes, schools and Catholic related causes	<u>852,760</u>	<u>542,918</u>
	<u>\$ 14,888,206</u>	<u>\$ 19,783,825</u>

Permanently restricted net assets as of December 31, 2016 and 2015 are restricted to investment in perpetuity, the income from which is expendable to support:

	<u>2016</u>	<u>2015</u>
Parishes, retired priests, cathedral maintenance, and school endowment	<u>\$ 23,405,698</u>	<u>\$ 21,646,770</u>

**THE ORANGE CATHOLIC FOUNDATION****Notes to Financial Statements  
(Continued)  
December 31, 2016 and 2015****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.

During the year ended December 31, 2016, Net assets designated from the Orange Catholic Foundation Fund have been allocated to supplement operating and program revenue to grow, expand, and improve the Foundation's ability to fulfill its mission to raise, manage, grow, and grant funds. Additions to the Orange Catholic Foundation Fund including interest earned and unrealized gains totaled \$439,390 during the year ended December 31, 2016, which was also the ending balance as of December 31, 2016.

During the year ended December 31, 2016, the Board of Directors of the Foundation also established a reserve for operations. Amounts added to and held in the reserve totaled \$456,319 as of December 31, 2016.

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 \$449,244 and \$442,461 during the years ended December 31, 2016 and 2015, respectively. The reserve was reduced by \$583,138 and \$783,570 for grants during the years ended December 31, 2016 and 2015, respectively. The total amount of unrestricted net assets with board designations as of December 31, 2016 and 2015 was \$1,478,625 and \$716,810, respectively.

**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.

(Note 11 continued on the following page)

**THE ORANGE CATHOLIC FOUNDATION**

**Notes to Financial Statements  
(Continued)  
December 31, 2016 and 2015**

**NOTE 11 – ENDOWMENT (Continued)**

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, 2016 and 2015**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</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	--	134,741	21,646,770	21,781,511
Contributions	--	--	342,161	342,161
Investment return:				
Investment income	--	7,572	279,664	287,236
Realized and unrealized (loss) on investments	--	39,705	1,491,077	1,530,782
Other changes in endowment net assets	--	--	510,040	510,040
Appropriation of endowment for expenditure	885,557	(21,543)	(864,014)	--
Expenditure of appropriated funds	<u>(885,557)</u>	<u>--</u>	<u>--</u>	<u>(885,557)</u>
Endowment net assets, December 31, 2016	<u>\$ --</u>	<u>\$ 160,475</u>	<u>\$ 23,405,698</u>	<u>\$ 23,566,173</u>

(Note 11 continued on the following page)

**THE ORANGE CATHOLIC FOUNDATION****Notes to Financial Statements  
(Continued)****December 31, 2016 and 2015****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, 2016 and 2015.

**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 spending policy includes an endowment spending rate of up to 5% of the endowment funds market value up to a rolling three-year average. For new endowment funds that do not have a three-year rolling average, the Foundation's investment spending policy requires that new funds have a minimum of four quarters of investment performance prior to December 31 of the applicable year before making a distribution of up to 5%. 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, 2016 and 2015****NOTE 12 - TRANSACTIONS WITH AFFILIATE**

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.

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 1<sup>st</sup> of each subsequent year, unless either party provides notice of change or termination at least 90 days prior to the renewal date.

During the years ended December 31, 2016 and 2015, the Foundation incurred rent expense and reimbursable administrative expenses through its services arrangements with the Diocese of Orange totaling \$262,079 and \$217,860 for the years ended December 31, 2016 and 2015, respectively.

(Note 12 continued on the following page)

**THE ORANGE CATHOLIC FOUNDATION**

**Notes to Financial Statements  
(Continued)  
December 31, 2016 and 2015**

**NOTE 12 - TRANSACTIONS WITH AFFILIATE (Continued)**

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, 2016, the Foundation's future minimum annual lease commitment under the lease agreement is as follows:

Years ending December 31:	
2017	\$ 61,464
2018	61,464
2019	61,464
2020	61,464
2021	61,464
Thereafter	<u>112,684</u>
	<u>\$ 420,004</u>

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, 2016 and 2015.

During the years ended December 31, 2016 and 2015, the Foundation recorded interest expense on the aforementioned promissory notes in the amount of \$20,055 and \$20,000, respectively.