



THE ORANGE CATHOLIC FOUNDATION

Financial Statements
Year Ended December 31, 2018
(With Summarized Comparative Information for the Year Ended December 31, 2017)
(With Independent Auditor's Report Thereon)

TABLE OF CONTENTS**PAGE NO.**

Independent Auditor's Report.....	1 - 2
Statements of Financial Position - December 31, 2018 and 2017	3
Statements of Activities and Changes in Net Assets - Years Ended December 31, 2018 and 2017 (Summarized)	4
Statement of Functional Expenses - Year Ended December 31, 2018.....	5
Statements of Cash Flows - Years Ended December 31, 2018 and 2017	6
Notes to Financial Statements - December 31, 2018 and 2017	7 - 30



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, 2018, and the related statements of activities and changes in net assets, functional expenses 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, 2018, 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 25, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2017 is consistent, in all material respects, with the audited financial statements from which it has been derived.

KSJG, LLP
May 2, 2019

KSJG, LLP
100 Spectrum Center Drive, Suite 1000, Irvine, California 92618

THE ORANGE CATHOLIC FOUNDATION

**Statements of Financial Position
December 31, 2018 and 2017**

ASSETS

	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 19,370,921	\$ 18,569,902
Accounts receivable, net	18,046	2,038
Prepaid expenses and other assets	133,124	138,242
Beneficial interest in charitable remainder trust	1,000,000	--
Property held for sale (Note 3)	--	2,177,500
Investments (Note 3)	41,283,406	40,305,581
Pledges receivable, net (Note 4)	18,120,949	20,960,598
Property and equipment, net (Note 5)	<u>123,028</u>	<u>139,083</u>
Total assets	<u>\$ 80,049,474</u>	<u>\$ 82,292,944</u>

LIABILITIES AND NET ASSETS

Liabilities:

Accounts and grants payable and accrued liabilities (Note 9)	\$ 5,136,681	\$ 8,796,310
Notes payable - affiliate (Note 13)	--	1,000,000
Deferred contributions	<u>444,109</u>	<u>255,422</u>
Total liabilities	<u>5,580,790</u>	<u>10,051,732</u>

Net assets:

Without donor restrictions (Notes 10 and 11)	4,969,904	4,998,135
With donor restrictions (Notes 10, 11 and 12)	<u>69,498,780</u>	<u>67,243,077</u>
Total net assets	<u>74,468,684</u>	<u>72,241,212</u>
Total liabilities and net assets	<u>\$ 80,049,474</u>	<u>\$ 82,292,944</u>

See accompanying notes to financial statements

THE ORANGE CATHOLIC FOUNDATION

**Statement of Activities and Changes in Net Assets
Year Ended December 31, 2018**

(With summarized comparative information for the year ended December 31, 2017)

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>	
			<u>2018</u>	<u>2017</u>
Revenues and support:				
Campaign contributions	\$ 11,194,591	\$ 9,665,976	\$ 20,860,567	\$ 19,520,983
Other contributions	248,345	6,215,346	6,463,691	14,764,637
Event revenue	--	622,663	622,663	725,227
Administrative income	274,470	--	274,470	211,322
Investment income	36,574	335,320	371,894	441,713
Realized and unrealized (loss) gain on investments	(160,065)	(2,141,985)	(2,302,050)	3,661,448
Other income	478,664	--	478,664	455,630
Other changes in net assets	(73,399)	73,399	--	--
Net assets released from restrictions (Note 10)	12,332,454	(12,332,454)	--	--
Total revenues and support	<u>24,331,634</u>	<u>2,438,265</u>	<u>26,769,899</u>	<u>39,780,960</u>
Expenses:				
Program	24,015,834	182,562	24,198,396	23,754,690
Supporting services:				
General and administrative	233,226	--	233,226	276,850
Fundraising	110,805	--	110,805	142,533
Total supporting services expense	<u>344,031</u>	<u>--</u>	<u>344,031</u>	<u>419,383</u>
Total expenses	<u>24,359,865</u>	<u>182,562</u>	<u>24,542,427</u>	<u>24,174,073</u>
Change in net assets	(28,231)	2,255,703	2,227,472	15,606,887
Net assets, beginning of year	<u>4,998,135</u>	<u>67,243,077</u>	<u>72,241,212</u>	<u>56,634,325</u>
Net assets, end of year	<u>\$ 4,969,904</u>	<u>\$ 69,498,780</u>	<u>\$ 74,468,684</u>	<u>\$ 72,241,212</u>

See accompanying notes to financial statements

THE ORANGE CATHOLIC FOUNDATION

**Statement of Statements of Functional Expenses
Year Ended December 31, 2018**

	<u>Program Services</u>	<u>Supporting Services</u>		<u>Total</u>
		<u>General & Administrative</u>	<u>Fundraising</u>	
Expenses:				
Grants	\$ 14,259,706	\$ --	\$ --	\$ 14,259,706
Rebates/parish share (Notes 6 and 8)	4,881,557	--	--	4,881,557
Salaries	1,165,375	130,064	61,794	1,357,233
Payroll taxes	76,626	8,064	3,831	88,521
Employee benefits	129,949	14,724	6,995	151,668
Administrative fees	267,434	--	--	267,434
Advertising	416,720	30,199	14,348	461,267
Bad debt	2,063,395	--	--	2,063,395
Bank charges	125,449	239	113	125,801
Change in discount	10,583	--	--	10,583
Depreciation	28,027	3,123	1,484	32,634
Dues and subscriptions	15,431	207	98	15,736
Events	241,808	2,051	974	244,833
Interest	11,612	--	--	11,612
Meals and entertainment	27,793	1,056	502	29,351
Miscellaneous	3,389	353	168	3,910
Office supplies	24,661	3,819	1,814	30,294
Postage	94,360	2,065	981	97,406
Professional fees	257,271	26,788	12,727	296,786
Property Insurance	5,211	581	276	6,068
Rent	59,163	6,592	3,132	68,887
Telephone	11,996	1,148	545	13,689
Travel and mileage	20,880	2,153	1,023	24,056
	<u>24,198,396</u>	<u>233,226</u>	<u>110,805</u>	<u>24,542,427</u>
Total expenses	\$ <u>24,198,396</u>	\$ <u>233,226</u>	\$ <u>110,805</u>	\$ <u>24,542,427</u>

See accompanying notes to financial statements

THE ORANGE CATHOLIC FOUNDATION

Statements of Cash Flows
Years Ended December 31, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	\$ 2,227,472	\$ 15,606,887
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Realized and unrealized loss (gain) on investments	2,152,449	(3,661,448)
Depreciation	32,634	27,197
Loss from sale of property held for sale	149,601	--
Donation of property held for sale	--	(2,177,500)
(Increase) decrease in:		
Accounts receivable, net	27,622	(93,603)
Pledges receivable, net	2,796,019	4,060,407
Prepaid expenses and other assets	5,118	(33,813)
Beneficial interest in charitable remainder trust	(1,000,000)	--
Increase (decrease) in:		
Accounts and grants payable and accrued liabilities	(3,659,629)	(4,119,423)
Deferred contributions	188,687	181,228
Net cash provided by operating activities	2,919,973	9,789,932
Cash flows from investing activities:		
Purchases of investments	(5,697,695)	(24,826,005)
Proceeds from sale of investments	2,567,421	13,977,483
Purchases of property and equipment	(16,579)	(1,494)
Proceeds from sale of property held for sale	2,027,899	--
Net cash (used in) investing activities	(1,118,954)	(10,850,016)
Cash flows from financing activities:		
Purchases of investments	(1,000,000)	--
Net cash (used in) financing activities	(1,000,000)	--
Net increase (decrease) in cash and cash equivalents	801,019	(1,060,084)
Cash and cash equivalents:		
Beginning of year	18,569,902	19,629,986
End of year	\$ 19,370,921	\$ 18,569,902

See accompanying notes to financial statements

THE ORANGE CATHOLIC FOUNDATION

Notes to Financial Statements December 31, 2018 and 2017

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 funds without donor restriction and funds with donor restrictions, including 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.

(Note 1 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017****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:

Net Assets Without Donor Restrictions – net assets that are not subject to donor-imposed stipulations including amounts designated by the Board of Directors.

Net Assets With Donor Restrictions – net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Foundation or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Donor restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statements of activities.

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, 2018 and 2017****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.

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, 2018 and 2017.

Pass-through and Custodial Funds - Pass-through 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. Custodial funds relate to monies received from various parishes or schools whereby the Foundation acts as a custodian, to hold and disburse the funds upon the request of the parish or school. The corresponding assets and liabilities are not recorded on the statements of financial position. Total pass-through funds were \$1,654,639 and \$1,370,950 and total custodial funds held by the Foundation amounted to \$1,355,227 and \$0 as of December 31, 2018 and 2017, respectively.

(Note 1 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contributions - Contributions, including unconditional promises to give, are recognized when received or pledged by the donor. Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. The Foundation's policy is to record restricted gifts that are received and spent in the same year as unrestricted support.

Contributed property and equipment are recorded at fair value at the date of donation. Contributions with donor-imposed stipulations regarding how long the contributed assets must be used are recorded as net assets with donor restrictions; otherwise, the contributions are recorded as net assets without donor restrictions.

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. No gifts in-kind were recorded for the years ended December 31, 2018 and 2017.

Several volunteers, including board members and several functional committees, have made significant contributions of their time in furtherance of Foundation and its mission. These services were not reflected in the accompanying statements of activities because they do not meet the necessary criteria for recognition under US GAAP.

(Note 1 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Beneficial Interest in Charitable Remainder Trust - Contributions, including unconditional promises to give, are recognized as revenue in the period received. The Foundation is also a beneficiary in certain trusts. The Foundation recognizes as revenue the present value of the estimated future benefits to be received upon distribution of irrevocable trusts for which the Foundation is beneficiary but is not the trustee. The present value discount on those future benefits is computed using a risk-free interest rate as of the balance sheet date that is commensurate with the time frame expected to receive distributions from the trust. Changes in the present value discount amount and overall value of the Foundation's beneficial interest in these trusts are recognized in the statement of activities and changes in net assets. When these gifts are revocable in nature, they are not reflected in the financial statements.

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. The Foundation is exempt from filing tax returns under the Catholic Directory exemption, however has elected to file an informational return with the California Franchise Tax Board.

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.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities and changes in net assets and the statement of functional expenses. 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 campaigns 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 statements of activities and changes in net assets and the accompanying statement of functional expenses. Such allocations are determined by management on an equitable basis.

Certain expenses reported on the accompanying statement of functional expenses, such as grants, rebates/parish share, bad debt expense, change in discount, and interest expense have been allocated to programs based on direct usage. The majority of the remaining natural expenses have generally been allocated to the program and supporting services based on time and effort of the employees involved. For certain expenses including advertising, bank charges, dues and subscriptions, meals and entertainment, and professional fees, the cost directly attributable to program or supporting services have been allocated as such, with the remaining amount of shared cost being allocated based on the time and effort of the employees involved.

(Note 1 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Program Services - Functions of the Foundation that center on providing support to the ministries, parishes and schools of the Diocese of Orange. This includes conducting fundraising services, endowment and fund management, and gift and grant administration according to donor intent. Additional information on program services can be found in Notes 6, 7, 8, 12 and 13.

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 3), and for fair value measurements of non-financial items that are recognized and disclosed at fair value in the financial statements on a recurring basis. The accounting standard defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

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

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 does not hold any Level 3 assets.

(Note 1 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017****NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Fair Value Measurements (Continued) – 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.

Recent Accounting Pronouncements - In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This update is meant to simplify and improve how a not-for-profit organization classifies its net assets, presents its cash flows, and reports its investment returns. In addition, the update provides for enhanced disclosures about the liquidity and availability of an organization’s assets, the classification of its expenses by both nature and function, and the methodology of allocating such expenses to programs and supporting services. The Foundation has adjusted the presentation of these financial statements accordingly and the ASU has been applied retrospectively to all periods reported. As part of the transition guidance for the ASU, in the year of adoption, single year presentation of the liquidity and availability disclosure and reporting of expenses by both nature and function is allowable.

In May 2014, the FASB issued ASU No. 2014-09, *Revenue from Contracts with Customers: Topic 606*. Under Topic 606, an entity is required to recognize revenue upon transfer of promised goods or services to customers, in an amount that reflects the expected consideration received in exchange for those goods or services. Topic 606 will be effective for the Organization’s fiscal year ending December 31, 2019.

(Note 1 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017****NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Recent Accounting Pronouncements (Continued) – In June 2018, the FASB issued ASU No. 2018-08, *Not-for-Profit Entities (Topic 958): Clarifying the Scope and the Accounting Guidance for Contributions Received and Made*. This update requires a recipient of funds from a resource provider to determine if those funds should be classified as a reciprocal exchange transaction or as a contribution based on the value that the resource provider is receiving from the transaction. Additionally, the update requires recipient organizations to determine whether a contribution is conditional based on if the agreement includes barriers that must be overcome, and either a right of return of assets transferred, or a right of release of a resource provider's obligation to transfer assets. If the agreement includes both characteristics, the recipient is not entitled to the transferred assets, and therefore does not recognize the associated revenues, until the barrier is overcome. ASU No. 2018-08 will be effective for the Organization's fiscal year ending December 31, 2019.

In February 2016, the FASB issued ASU No. 2016-02, *Leases: Topic 842*. Under Topic 842, lessees will be required to recognize the following for substantially all leases:

- A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Topic 842 is effective for our year ended December 31, 2020.

Reclassifications - The summarized financial statements for the year ended December 31, 2017 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, 2018.

Subsequent Events - The Foundation evaluated subsequent events through May 2, 2019, 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, 2018 and 2017****NOTE 2 - AVAILABILITY AND LIQUIDITY**

The Foundation receives significant contributions with donor restrictions to be used in accordance with the associated purpose restrictions. It also receives gifts to establish endowments that will exist in perpetuity; the income generated from such gifts with purpose restrictions is used to fund programs. From the campaigns benefited by the gifts received with donor restrictions, the Foundation contractually receives financial support to fund the operational and administrative needs of the campaigns and the Foundation itself. Additionally, the Foundation receives revenues without donor restriction from services provided to various entities affiliated with the Roman Catholic Church in the Diocese of Orange, as well as administrative fees charged on endowment and other funds under its management.

The Foundation considers the aforementioned revenues streams to be available to meet cash needs for all general expenditures. General expenditures include grant and rebate commitments, and supporting service expenses that are expected to be paid in the subsequent year.

Apart from programmatic granting and rebating of funds, which are reviewed by the Board of Directors on a quarterly basis to ensure adequate review and approval of disbursement requests, the Foundation manages its cash available to meet core operating needs following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long term financial sustainability will be achieved.

To uphold these principals, the Foundation's Finance Committee meets on a quarterly basis to provide strategic oversight of the Foundation's core operating budget. In doing so, the Foundation strives to maintain financial assets available to meet operating expenditures at a level that represents at least 100% of annual expenses for general, administrative, and fundraising purposes. Additionally, the Foundation strives to ensure it maintains liquidity within its funds containing assets with donor restrictions, to cover expected payment of grant commitments approved by the Board of Directors. Depending on the beneficiary and nature of the grant, these amounts can vary for grants of funds with purpose restrictions. For endowment funds which are held in perpetuity, annual grant commitments are generally up to 5% of the market value of underlying assets up to a rolling three-year average.

(Note 2 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION

**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017**

NOTE 2 - AVAILABILITY AND LIQUIDITY (Continued)

The following table represents the Foundation's financial assets available for general expenditure within one year, as of December 31, 2018:

Financial assets at year end:	
Cash and equivalents	\$ 19,370,921
Accounts receivable	18,046
Charitable remainder trust	1,000,000
Investments	41,283,406
Pledges receivable	18,120,949
Total financial assets	<u>79,793,322</u>
Less financial assets not available for general expenditures within one year:	
Assets in charitable remainder trust	(1,000,000)
Investments held in perpetuity	(33,695,384)
Pledges receivable - due after one year	(15,195,294)
Board designated operating reserve	<u>(1,494,353)</u>
Financial assets not available to be used within one year	<u>(51,385,031)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 28,408,291</u>

(Note 2 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION

**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017**

NOTE 2 - AVAILABILITY AND LIQUIDITY (Continued)

The following table represents the Foundation's core operating financial assets available for expenditure within one year, as of December 31, 2018:

Financial assets available to meet general expenditures within one year	\$ <u>28,408,291</u>
Less financial assets with donor restrictions not to be used for core operating purposes:	
Cash restricted for grants and rebates/parish share	(12,029,237)
Investments restricted for grants	(6,047,500)
Pledges receivable expected to be collected within one year, with donor restrictions	<u>(5,902,096)</u>
	<u>(23,978,833)</u>
Financial assets available to meet core operating needs within one year	\$ <u><u>4,429,458</u></u>

THE ORANGE CATHOLIC FOUNDATION

**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017**

NOTE 3 – INVESTMENTS AND ASSETS RECORDED AT FAIR VALUE

Investments generally consist of mutual funds and certificates of deposit. It is the Foundation's Gift Acceptance Policy to generally liquidate gifted securities upon receipt. In addition, the Foundation was gifted real property during the year ended December 31, 2017, which was liquidated during the year ended December 31, 2018.

The following table sets forth by level, within the fair value hierarchy, the plan's assets at fair value as of December 31, 2018 and 2017:

	<u>Assets at Fair Value as of December 31, 2018</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds:				
Balanced funds	\$ 40,808,086	\$ --	\$ --	\$ 40,808,086
Certificates of deposit	--	475,320	--	475,320
Total investments	<u>\$ 40,808,086</u>	<u>\$ 475,320</u>	<u>\$ --</u>	<u>\$ 41,283,406</u>
	<u>Assets at Fair Value as of December 31, 2017</u>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments:				
Mutual funds:				
Balanced funds	\$ 2,230,217	\$ --	\$ --	\$ 2,230,217
Domestic stock funds	17,365,781	--	--	17,365,781
International funds	5,846,564	--	--	5,846,564
Fixed income funds	14,404,412	--	--	14,404,412
	<u>39,846,974</u>	<u>--</u>	<u>--</u>	<u>39,846,974</u>
Certificates of deposit	--	458,607	--	458,607
Total investments	<u>39,846,974</u>	<u>458,607</u>	<u>--</u>	<u>40,305,581</u>
Property held for sale	--	--	2,177,500	2,177,500
	<u>\$ 39,846,974</u>	<u>\$ 458,607</u>	<u>\$ 2,177,500</u>	<u>\$ 42,483,081</u>

(Note 3 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION

**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017**

NOTE 3 – INVESTMENTS AND ASSETS RECORDED AT FAIR VALUE (Continued)

Investment income for the years ended December 31, 2018 and 2017 is summarized as follows:

	<i>Years Ended December 31,</i>	
	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 371,894	\$ 441,713
Realized and unrealized (loss) gain	<u>(2,302,050)</u>	<u>3,661,448</u>
	<u>\$ (1,930,156)</u>	<u>\$ 4,103,161</u>

NOTE 4 - PLEDGES RECEIVABLE

Pledges receivable as of December 31, 2018 and 2017, all of which are related to the For Christ Forever Capital Campaign (Note 6) and Christ Cathedral Capital Campaign (Note 7) include amounts that have been discounted at rates ranging from 2.46% to 2.69% are as follows:

	<u>2018</u>	<u>2017</u>
Amounts due in:		
Less than one year	\$ 5,970,646	\$ 8,080,297
One to five years	5,679,912	17,125,760
Greater than five years	<u>9,515,382</u>	<u>101,928</u>
Total pledges	21,165,940	25,307,985
Less:		
Discount to present value	(501,682)	(491,099)
Reserve for uncollectible pledges	<u>(2,543,309)</u>	<u>(3,856,288)</u>
	<u>\$ 18,120,949</u>	<u>\$ 20,960,598</u>

As of December 31, 2018 and 2017, an outstanding pledge related to the Christ Cathedral Capital Campaign, net of the reserve for uncollectible pledges, represented 75.4% and 68.7%, respectively, of total pledges outstanding.

(Note 4 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION

**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017**

NOTE 4 - PLEDGES RECEIVABLE (Continued)

During the year ended December 31, 2018, the Foundation recognized expense related to reserves for potentially uncollectible For Christ Forever Capital Campaign pledges totaling \$1,955,255. During the year ended December 31, 2017, the Foundation did not recognize any expense related to reserves for potentially uncollectible For Christ Forever Capital Campaign pledges.

During the years ended December 31, 2018 and 2017, the Foundation recognized expense related to reserves for potentially uncollectible Christ Cathedral Capital Campaign Our Lady of La Vang pledges totaling \$355,406 and \$371,368, respectively. During the year ended December 31, 2018, the Foundation recognized income from a reduction in the reserve for potentially uncollectible For Christ Forever Capital Campaign pledges totaling \$247,266. During the year ended December 31, 2017, no change to the reserve for potentially uncollectible accounts was recorded.

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2018 and 2017 consists of the following:

	<u>2018</u>	<u>2017</u>
Office furniture and computer equipment	\$ 126,298	\$ 191,984
Leasehold improvements	<u>177,116</u>	<u>177,116</u>
	303,414	369,100
Less accumulated depreciation	<u>(180,386)</u>	<u>(230,017)</u>
	<u>\$ 123,028</u>	<u>\$ 139,083</u>

Depreciation expense for the years ended December 31, 2018 and 2017 was \$32,634 and \$27,197, respectively.

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017****NOTE 6 - 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. The renovation of the Hazel Wright Organ was also included in the campaign goal for Christ Cathedral.

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.

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 8). A part of each parish's financial target included its portion of the PSA for 2013.

Parishes and centers selected 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 guaranteed its 2013 PSA Goal and received 25% of the net funds collected above their 2013 PSA Goal. If a Good Faith Effort parish exceeded its Total Diocesan Capital Campaign Goal in cash it received 50% of funds raised above and beyond its Total Diocesan Capital Campaign Goal. A maximum allocations cap applied to parish donors who 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.

(Note 6 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017****NOTE 6 - FOR CHRIST FOREVER CAPITAL CAMPAIGN (Continued)**

In general, For Christ Forever Capital Campaign revenues are restricted until they are expended for the For Christ Forever Capital Campaign purposes. Total For Christ Forever Capital Campaign revenue amounted to \$1,211,391 and \$572,279 for the years ended December 31, 2018 and 2017, respectively. The revenues for the years ended December 31, 2018 and 2017 were offset by parish shares of \$221,372 and \$874,519, respectively. The amount due to parishes included in accounts and grants payable and accrued expenses at December 31, 2018 and 2017 was \$221,372 and \$179,344, respectively (Note 9).

A portion of the For Christ Forever Capital Campaign revenue is restricted in perpetuity 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, 2018 and 2017, no contributions were recorded as restricted revenues in perpetuity for the For Christ Forever Capital Campaign, however, amounts totaling \$223,441 and \$614,460, respectively, which were previously recorded as restricted pledge revenues and were received in cash during the years ended December 31, 2018 and 2017 were transferred to restricted endowments in accordance with the Capital Campaign Services Agreement. Of the amounts transferred to restricted endowments during the years ended December 31, 2018 and 2017, \$150,000 and \$471,543, respectively, were endowed to School Tuition Assistance Endowment Fund and \$63,441 and \$76,917, respectively, were endowed to Retired Priests Endowment Fund. Additional amounts transferred to restricted endowments during the years ending December 31, 2018 and 2017, \$0 and \$66,000, respectively, were endowed to The Bishop Kevin W. Vann Marian Alliance Endowment Fund and \$10,000 and \$0, respectively, were endowed to the St. Timothy Parish Pastor Retirement Fund.

NOTE 7 - 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 restricted gifts to complete the requisite funding of the Christ Cathedral renovation plans. Total revenues amounted to \$8,391,085 and \$8,137,974 for the years ending December 31, 2018 and 2017, respectively. During the years ending December 31, 2018 and 2017, revenues totaling \$4,886,902 and \$4,802,858, 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.

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017****NOTE 8 - 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 and Catholic Charities of Orange County for financial support of selected diocesan pastoral ministries including tuition assistance for Catholic elementary schools, and other programs which serve thousands of people throughout Orange County. 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 granted to that parish and were reported on the statement of activities and changes in net assets as a component of PSA revenues and expenses. PSA revenues are 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 restricted income received and programs funded remains restricted until expended. The amount due to parishes included in accounts and grants payable and accrued expenses at December 31, 2018 and 2017 was \$803,304 and \$986,403 (Note 9).

The Foundation provides services defined in a Management Services agreement between the Foundation and the Diocese of Orange which include development, gift management and fund-raising services for the benefit of the parishes, schools and ministries of the Diocese. Specific activities performed by the Foundation in providing such services include stewardship education, planned giving consultation and education, grant administration, restricted gift administration, estate and trust gift management, stock donation processing, fund-raising consultation and feasibility studies on capital campaigns. Revenue earned and contributions generated as a result of these services are generally not received or recorded by the Foundation, but rather go directly to the beneficiary school, parish, or ministry involved. Each year, a portion of the revenue generated by the PSA campaign is used by the Foundation to pay for the costs associated with providing such services. During the years ended December 31, 2018 and 2017, the costs of providing such services totaled \$643,977 and \$906,691 and are included in both program and supporting services on the accompanying statements of activities and changes in net assets and the statement of functional expenses.

THE ORANGE CATHOLIC FOUNDATION

**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017**

NOTE 9 - ACCOUNTS AND GRANTS PAYABLE AND ACCRUED LIABILITIES

Accounts and grants payable and accrued liabilities consist of the following at December 31, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Grants due for Cathedral campus and organ renovation	\$ 2,395,799	\$ 5,539,640
Tuition assistance grants due to Catholic Schools	525,750	943,146
PSA grants due to Diocesan ministries and Catholic Affiliates	919,029	890,512
Information technology grant	46,400	--
Catholic related causes, activities and programs	27,944	7,679
For Christ Forever parish share (Note 6)	221,372	179,344
PSA rebates (Note 8)	803,304	986,403
Salaries and wages	47,354	46,431
Vacation	81,240	91,403
Interest (Note 13)	--	40,055
Other accrued expenses	68,489	71,697
	<u>\$ 5,136,681</u>	<u>\$ 8,796,310</u>

NOTE 10 - NET ASSETS

Net assets without donor restrictions at December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Undesignated	\$ 3,475,551	\$ 3,617,254
Board-designated (Note 11)	<u>1,494,353</u>	<u>1,380,881</u>
Total	<u>\$ 4,969,904</u>	<u>\$ 4,998,135</u>

(Note 10 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION

**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017**

NOTE 10 - NET ASSETS (Continued)

Net assets with donor restrictions at December 31, 2018 and 2017 consist of the following:

	<u>2018</u>	<u>2017</u>
Purpose restriction:		
For Christ Forever Capital Campaign	\$ 2,292,007	\$ 6,397,022
Christ Cathedral Capital Campaign:		
Phase 3	15,312,765	14,416,143
Our Lady of La Vang Shrine	9,440,493	5,739,991
Pastoral Services Appeal	103,871	80,211
Tuition assistance and grants to various parishes, schools and Catholic related causes	<u>7,797,291</u>	<u>5,858,765</u>
	34,946,427	32,492,132
 Perpetual in nature	 <u>34,552,353</u>	 <u>34,750,945</u>
 Total	 <u>\$ 69,498,780</u>	 <u>\$ 67,243,077</u>

Net assets with donor restrictions were released during the years ended December 31, 2018 and 2017 for the following purposes:

	<u>2018</u>	<u>2017</u>
Satisfaction of purpose restrictions:		
For Christ Forever Capital Campaign	\$ 4,461,158	\$ 3,543,247
Christ Cathedral Capital Campaign:		
Phase 3	3,398,196	4,733,996
Our Lady of La Vang Shrine	1,233,082	827,510
Pastoral Services Appeal	49,635	52,395
Tuition assistance and grants to various parishes, schools and Catholic related causes	<u>2,064,981</u>	<u>1,296,023</u>
	11,207,052	10,453,171
 Appropriations from endowments	 <u>1,125,402</u>	 <u>845,297</u>
 Total	 <u>\$ 12,332,454</u>	 <u>\$ 11,298,468</u>

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017****NOTE 11 - 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 were 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 fund including transfers from other funds interest earned and unrealized gains/(losses) totaled \$20,018 and \$30,098 during the years ended December 31, 2018 and 2017, respectively. The reserve was reduced by \$0 and \$104,655 for grants during the years ended December 31, 2018 and 2017, respectively.

During the year ended December 31, 2016, the Board of Directors of the Foundation also established a reserve for operations. Additions to the fund including transfers from other funds, interest earned and unrealized gains/(losses) totaled \$16,714 and \$2,287 during the years ended December 31, 2018 and 2017, respectively. The reserve was not reduced by board-approved expenses during the years ended December 31, 2018 and 2017, respectively.

Net assets designated from the Information and Technology Fund have been allocated to provide for grants to Catholic schools and parishes for information technology upgrades, faith formation, and education. Additions to the fund including interest earned and unrealized gains/(losses) totaled \$480,372 and \$462,079 during the years ended December 31, 2018 and 2017, respectively. The fund was reduced by \$404,896 and \$487,097 for grants and other expenses during the years ended December 31, 2018 and 2017, respectively.

The total amount of unrestricted net assets with board designations as of December 31, 2018 and 2017 was \$1,494,353 and \$1,380,881, respectively.

NOTE 12 - 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 net assets with donor restrictions in perpetuity as net assets with donor restrictions for purpose or time, until appropriated for expenditure. Adoption of this standard did not affect the financial position or changes in net assets of the Foundation.

(Note 12 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION

**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017**

NOTE 12 – 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 net assets with donor restrictions in perpetuity.

The Foundation's endowment consists of 74 individual funds established for a variety of purposes.

Changes in Endowment Net Assets for the Years Ending December 31, 2018 and 2017

	Without Donor Restrictions		With Donor Restrictions		Total
			Purpose	In Perpetuity	
Endowment net assets, December 31, 2016	\$	--	\$ 160,475	\$ 23,405,698	\$ 23,566,173
Contributions		--	--	7,832,253	7,832,253
Investment return:					
Investment income		--	8,272	374,010	382,282
Realized and unrealized gain on investments		--	76,189	3,326,014	3,402,203
Other changes in endowment net assets		--	--	824,207	824,207
Appropriation of endowment for expenditure		1,044,228	(32,991)	(1,011,237)	--
Expenditure of appropriated funds		<u>(1,044,228)</u>	<u>--</u>	<u>--</u>	<u>(1,044,228)</u>
Endowment net assets, December 31, 2017		--	211,945	34,750,945	34,962,890
Contributions		--	--	2,399,789	2,399,789
Investment return:					
Investment income		--	5,495	270,436	275,931
Realized and unrealized gain on investments		--	(35,121)	(1,784,293)	(1,819,414)
Other changes in endowment net assets		--	--	223,441	223,441
Appropriation of endowment for expenditure		1,329,597	(21,632)	(1,307,965)	--
Expenditure of appropriated funds		<u>(1,329,597)</u>	<u>--</u>	<u>--</u>	<u>(1,329,597)</u>
Endowment net assets, December 31, 2018	\$	<u>--</u>	\$ <u>160,687</u>	\$ <u>34,552,353</u>	\$ <u>34,713,040</u>

(Note 12 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)****December 31, 2018 and 2017****NOTE 12 - 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, 2018 and 2017.

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, 2018 and 2017**

NOTE 13 - TRANSACTIONS WITH AFFILIATE

In April 2016, the Foundation entered into four new services agreements with the Diocese of Orange that were 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 service agreements 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.

During the years ended December 31, 2018 and 2017, the Foundation incurred rent expense and reimbursable administrative expenses through its services arrangements with the Diocese of Orange totaling \$274,035 and \$253,873 for the years ended December 31, 2018 and 2017, respectively.

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 \$5,741 which includes the Foundation's share 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, 2018, the Foundation's future minimum annual lease commitment under the lease agreement is as follows:

Years ending December 31:	
2019	\$ 68,887
2020	68,887
2021	68,887
2022	68,887
2023	<u>57,406</u>
	<u>\$ 332,954</u>

(Note 13 continued on the following page)

THE ORANGE CATHOLIC FOUNDATION**Notes to Financial Statements
(Continued)
December 31, 2018 and 2017****NOTE 13 - TRANSACTIONS WITH AFFILIATE (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 7). The note accrued interest at a rate of 2% and was paid in full during the year ended December 31, 2018. The outstanding balance on the note was \$1,000,000 as of December 31, 2017.

During the years ended December 31, 2018 and 2017, the Foundation recorded interest expense on the aforementioned promissory notes in the amount of \$11,612 and \$20,000, respectively.