

THE ORANGE CATHOLIC FOUNDATION
Financial Statements
December 31, 2020 and 2019
With Independent Auditor's Report

The Orange Catholic Foundation
Table of Contents
December 31, 2020 and 2019

Independent Auditor's Report	1
Financial Statements	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3-4
Statements of Functional Expenses	5-6
Statements of Cash Flows	7
Notes to Financial Statements	8-23

INDEPENDENT AUDITOR'S REPORT

To 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 statements of financial position as of December 31, 2020 and 2019, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

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, 2020 and 2019, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

WithumSmith+Brown, PC

July 22, 2021

**The Orange Catholic Foundation
Statements of Financial Position
December 31, 2020 and 2019**

	<u>2020</u>	<u>2019</u>
Assets		
Cash and cash equivalents	\$ 5,718,630	\$ 7,456,776
Prepaid expenses and other assets	142,217	222,976
Investments	54,826,455	50,121,866
Unconditional promises to give, net	11,459,242	14,399,966
Property and equipment, net	<u>63,838</u>	<u>91,483</u>
 Total assets	 <u>\$ 72,210,382</u>	 <u>\$ 72,293,067</u>
Liabilities and Net Assets		
Liabilities		
Accounts and distributions payable and accrued liabilities	\$ 1,330,829	\$ 2,373,826
PPP loan payable	259,345	-
Deferred contributions	<u>1,500</u>	<u>13,500</u>
Total liabilities	<u>1,591,674</u>	<u>2,387,326</u>
Net assets		
Without donor restrictions	5,338,703	5,836,866
With donor restrictions	<u>65,280,005</u>	<u>64,068,875</u>
Total net assets	<u>70,618,708</u>	<u>69,905,741</u>
 Total liabilities and net assets	 <u>\$ 72,210,382</u>	 <u>\$ 72,293,067</u>

The Notes to Financial Statements are an integral part of these statements.

The Orange Catholic Foundation
Statements of Activities and Changes in Net Assets
Year Ended December 31, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and support			
Campaign contributions	\$ 63,730	\$ 862,061	\$ 925,791
Other contributions	1,934,112	919,831	2,853,943
Event revenue	-	3,347	3,347
Administrative income	53,438	-	53,438
Investment income	50,682	4,950	55,632
Realized and unrealized gain on investments	8,369	6,982,409	6,990,778
Other income	576,616	-	576,616
Other changes in net assets	182,238	(182,238)	-
Net assets released from restrictions	<u>7,379,230</u>	<u>(7,379,230)</u>	<u>-</u>
Total revenues and support	<u>10,248,415</u>	<u>1,211,130</u>	<u>11,459,545</u>
Expenses			
Program	<u>9,792,533</u>	<u>-</u>	<u>9,792,533</u>
Supporting services			
General and administrative	757,199	-	757,199
Fundraising	<u>196,846</u>	<u>-</u>	<u>196,846</u>
Total supporting services	<u>954,045</u>	<u>-</u>	<u>954,045</u>
Total expenses	<u>10,746,578</u>	<u>-</u>	<u>10,746,578</u>
Changes in net assets	(498,163)	1,211,130	712,967
Net assets			
Beginning of year	<u>5,836,866</u>	<u>64,068,875</u>	<u>69,905,741</u>
End of year	<u>\$ 5,338,703</u>	<u>\$ 65,280,005</u>	<u>\$ 70,618,708</u>

The Notes to Financial Statements are an integral part of this statement.

The Orange Catholic Foundation
Statements of Activities and Changes in Net Assets
Year Ended December 31, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and support			
Campaign contributions	\$ 11,769,970	\$ 3,156,062	\$ 14,926,032
Other contributions	289,658	1,079,428	1,369,086
Event revenue	-	718,084	718,084
Administrative income	56,195	11,609	67,804
Investment income	77,910	16,796	94,706
Realized and unrealized gain on investments	3,764	8,353,911	8,357,675
Other income	497,058	-	497,058
Other changes in net assets	703,308	(703,308)	-
Net assets released from restrictions	18,062,487	(18,062,487)	-
Total revenues and support	<u>31,460,350</u>	<u>(5,429,905)</u>	<u>26,030,445</u>
Expenses			
Program	<u>29,906,737</u>	<u>-</u>	<u>29,906,737</u>
Supporting services			
General and administrative	620,685	-	620,685
Fundraising	65,966	-	65,966
Total supporting services	<u>686,651</u>	<u>-</u>	<u>686,651</u>
Total expenses	<u>30,593,388</u>	<u>-</u>	<u>30,593,388</u>
Changes in net assets	866,962	(5,429,905)	(4,562,943)
Net assets			
Beginning of year	<u>4,969,904</u>	<u>69,498,780</u>	<u>74,468,684</u>
End of year	<u>\$ 5,836,866</u>	<u>\$ 64,068,875</u>	<u>\$ 69,905,741</u>

The Notes to Financial Statements are an integral part of this statement.

**The Orange Catholic Foundation
Statements of Functional Expenses
Year Ended December 31, 2020**

	<u>Supporting Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>General & Administrative</u>	<u>Fundraising</u>	
Expenses				
Distributions	\$ 8,681,131	\$ -	\$ -	\$ 8,681,131
Salaries	472,492	286,509	100,076	859,077
Payroll taxes	33,948	20,585	7,190	61,723
Employee benefits	55,135	32,132	11,224	98,491
Advertising	185,535	33,301	19,270	238,106
Bad debt expense	178,729	-	-	178,729
Bank and merchant charges	26,635	6,093	1,423	34,151
Change in discount	(215,656)	-	-	(215,656)
Depreciation	15,205	9,220	3,220	27,645
Dues and subscriptions	608	1,248	129	1,985
Events	23,907	3,906	236	28,049
Meetings and meals	1,649	2,359	540	4,548
Miscellaneous	1,488	1,520	316	3,324
Office supplies	4,609	8,647	794	14,050
Postage	74,992	9,948	2,605	87,545
Professional fees	177,630	296,492	33,844	507,966
Property insurance	30,175	18,298	6,391	54,864
Rent	36,115	21,899	7,649	65,663
Telephone	3,889	2,358	1,022	7,269
Travel and mileage	4,317	2,684	917	7,918
	<u>\$ 9,792,533</u>	<u>\$ 757,199</u>	<u>\$ 196,846</u>	<u>\$ 10,746,578</u>

The Notes to Financial Statements are an integral part of this statement.

**The Orange Catholic Foundation
Statements of Functional Expenses
Year Ended December 31, 2019**

	<u>Supporting Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>General & Administrative</u>	<u>Fundraising</u>	
Expenses				
Distributions	\$ 28,074,028	\$ -	\$ -	\$ 28,074,028
Salaries	767,954	277,954	29,094	1,075,002
Payroll taxes	52,399	30,894	1,827	85,120
Employee benefits	87,928	45,447	3,137	136,512
Advertising	336,562	79,089	11,641	427,292
Bad debt (recovery)	(18,051)	-	-	(18,051)
Bank and merchant charges	133,002	1,915	231	135,148
Change in discount	(257,853)	-	-	(257,853)
Depreciation	22,633	7,896	1,016	31,545
Dues and subscriptions	7,292	170	25	7,487
Events	168,090	8,328	1,222	177,640
Meetings and meals	7,523	3,263	191	10,977
Miscellaneous	119,173	1,862	9	121,044
Office supplies	11,394	10,543	617	22,554
Postage	66,266	7,228	204	73,698
Professional fees	259,263	121,009	13,958	394,230
Property insurance	2,048	3,867	153	6,068
Rent	49,426	17,242	2,218	68,886
Telephone	5,622	1,391	169	7,182
Travel and mileage	12,038	2,587	254	14,879
	<u>\$ 29,906,737</u>	<u>\$ 620,685</u>	<u>\$ 65,966</u>	<u>\$ 30,593,388</u>

The Notes to Financial Statements are an integral part of this statement.

The Orange Catholic Foundation
Statements of Cash Flows
Years Ended December 31, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Operating activities		
Changes in net assets	\$ 712,967	\$ (4,562,943)
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Realized and unrealized gain on investments	(6,990,778)	(8,357,675)
Change in reserve for uncollectible promises to give	47,433	672,846
Change in discount to present value	215,656	257,853
Depreciation	27,645	31,545
(Increase) decrease in		
Unconditional promises to give	2,677,635	2,790,284
Prepaid expenses and other assets	80,759	(71,806)
Beneficial interest in charitable remainder trust	-	628,460
Increase (decrease) in		
Accounts and distributions payable and accrued liabilities	(1,042,997)	(2,762,855)
Deferred contributions	<u>(12,000)</u>	<u>(430,609)</u>
Net cash used in operating activities	<u>(4,283,680)</u>	<u>(11,804,900)</u>
Investing activities		
Purchases of investments	(1,689,589)	(2,999,635)
Proceeds from sale of investments	<u>3,975,778</u>	<u>2,890,390</u>
Net cash provided by (used in) investing activities	<u>2,286,189</u>	<u>(109,245)</u>
Financing activities		
Proceeds from origination of PPP loan payable	<u>259,345</u>	<u>-</u>
Net cash provided by financing activities	<u>259,345</u>	<u>-</u>
Net change in cash and cash equivalents	(1,738,146)	(11,914,145)
Cash and cash equivalents		
Beginning of year	<u>7,456,776</u>	<u>19,370,921</u>
End of year	<u>\$ 5,718,630</u>	<u>\$ 7,456,776</u>

Supplemental disclosure of non-cash investing activities

During the year ended December 31, 2019, the Foundation received investments from the liquidation of the charitable remainder trust totaling \$371,540.

The Notes to Financial Statements are an integral part of these statements.

The Orange Catholic Foundation
Notes to Financial Statements
December 31, 2020 and 2019

1. NATURE OF ORGANIZATION AND 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 distributions 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.

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 and changes in net assets.

The Orange Catholic Foundation
Notes to Financial Statements
December 31, 2020 and 2019

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 Risks

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 statements 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.

Unconditional Promises to Give

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 receivables until the conditions are met. If a restriction is fulfilled in the same time period in which the contribution is received, the Foundation reports the support as net assets without donor restrictions. Amounts deemed uncollectible by management are included in the allowance for uncollectible promises to give. At December 31, 2020 and 2019, the Foundation evaluated the collectability of unconditional promises to give and recorded an allowance for doubtful accounts of \$2,030,741 and \$2,114,292, respectively.

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, 2020 and 2019.

The Orange Catholic Foundation
Notes to Financial Statements
December 31, 2020 and 2019

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 \$1,404,148 and \$1,676,572 and total custodial funds held by the Foundation amounted to \$350,558 and \$451,625 as of December 31, 2020 and 2019, respectively.

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 and changes in net assets 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 fair value, upon donation, using present value techniques incorporating risk-adjusted discount rates designed to reflect 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, 2020 and 2019.

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 and changes in net assets because they do not meet the necessary criteria for recognition under accounting principles generally accepted in the United States of America ("US GAAP").

The Orange Catholic Foundation
Notes to Financial Statements
December 31, 2020 and 2019

Beneficial Interest in Charitable Remainder Trust

These are contributions, including unconditional promises to give, that 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 statement of financial position 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 statements 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 ("IRS") 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

These are 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 statements 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 statements of functional expenses. Such allocations are determined by management on an equitable basis.

Certain expenses reported on the accompanying statements of functional expenses, such as distributions, bad debt expense and change in discount have been allocated to programs based on direct usage.

The majority of the remaining natural expenses have generally been allocated to program and supporting services based on time and effort of the employees involved. For certain expenses including advertising, bank charges, dues and subscriptions, meetings and meals, 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.

Program Services

These are the 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 distribution administration according to donor intent.

The Orange Catholic Foundation
Notes to Financial Statements
December 31, 2020 and 2019

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 and Recently Adopted Accounting Pronouncement

For fair value measurements of financial assets and financial liabilities, 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 Foundation has adopted US GAAP standards that define 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 institutional mutual funds.

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

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

Fair value estimates are made at a specific point in time, based on available market information and judgments about the financial asset, including estimates of timing, amount of expected future cash flows, and the credit standing of the issuer. In some cases, the fair value estimates cannot be substantiated by comparison to independent markets. In addition, the disclosed fair values may not be realized in the immediate settlement of the financial asset.

In addition, the disclosed fair values do not reflect any premium or discount that could result from offering 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.

Effective January 1, 2020, the Foundation adopted Financial Accounting Standards Board ("FASB") Accounting Standards Update ("ASU") 2018-13, *Disclosure Framework - Changes to the Disclosure Requirements for Fair Value Measurement* (Topic 820). This ASU amended ASC Topic 820, *Fair Value Measurement*, by removing and modifying certain disclosure requirements related to fair value measurements, including Level 3 fair value measurement disclosures as well as expanding disclosure relating to the expected timing of liquidation of certain investments held at net asset value. The Foundation used the modified retrospective approach to adopt this ASU, which had no significant impact on the financial statements.

The Orange Catholic Foundation
Notes to Financial Statements
December 31, 2020 and 2019

Recent Accounting Pronouncements Not Yet Adopted

In September 2020, the FASB issued ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958) which is effective for periods beginning after June 15, 2021, with early adoption permitted, and is intended to improve transparency in the reporting of contributed nonfinancial assets, also known as gifts in-kind, for not-for-profit organizations. The ASU requires a not-for-profit organization to present contributed nonfinancial assets as a separate line item in the statement of activities and changes in net assets, apart from contributions of cash or other financial assets, along with expanded disclosure requirements. The Foundation does not expect this ASU to have a significant impact on the financial statements.

In February 2016, the FASB issued ASU No. 2016-02, *Leases* (Topic 842). Under ASU No. 2016-02, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- 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.

ASU No. 2016-02 is effective for the periods beginning after December 15, 2022. The Foundation is currently evaluating the impact of this ASU on the financial statements.

Subsequent Events

The Foundation evaluated subsequent events through July 22, 2021, the date these financial statements were available to be issued. With the exception of the matter noted in Note 14, there were no material subsequent events that required recognition or additional disclosure in these financial statements.

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.

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

Apart from programmatic distribution 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.

The Orange Catholic Foundation
Notes to Financial Statements
December 31, 2020 and 2019

To uphold these principals, the Foundation's Executive Committee meets on a periodic 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 distribution commitments approved by the Board of Directors. Depending on the beneficiary and nature of the distribution, these amounts can vary for distributions of funds with purpose restrictions. For endowment funds which are held in perpetuity, annual distribution commitments are generally up to 5% of the market value of underlying assets up to a rolling three-year average.

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

	<u>2020</u>	<u>2019</u>
Financial assets at year end:		
Cash and equivalents	\$ 5,718,630	\$ 7,456,776
Investments	54,826,455	50,121,866
Unconditional promises to give, net	11,459,242	14,399,966
Other assets	<u>38,344</u>	<u>26,799</u>
Total financial assets	<u>72,042,671</u>	<u>72,005,407</u>
Less: Financial assets not available for general expenditures within one year		
Investments held in perpetuity	(44,295,433)	(40,883,899)
Unconditional promises to give, due after one year, net	(9,609,930)	(10,729,801)
Board designated operating reserve	<u>(1,380,625)</u>	<u>(1,744,386)</u>
Financial assets not available to be used within one year	<u>(55,285,988)</u>	<u>(53,358,086)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 16,756,683</u>	<u>\$ 18,647,321</u>

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

	<u>2020</u>	<u>2019</u>
Financial assets available to meet general expenditures within one year	<u>\$ 16,756,683</u>	<u>\$ 18,647,321</u>
Less: Financial assets with donor restrictions not to be used for core operating purposes		
Cash restricted for distributions	(1,420,322)	(3,441,936)
Investments restricted for distributions	(9,032,928)	(7,588,521)
Unconditional promises to give expected to be collected within one year, with donor restrictions, net	<u>(1,849,312)</u>	<u>(3,670,165)</u>
Financial assets available to meet core operating needs within one year	<u>(12,302,562)</u>	<u>(14,700,622)</u>
Financial assets available to meet core operating needs within one year	<u>\$ 4,454,121</u>	<u>\$ 3,946,699</u>

The Orange Catholic Foundation
Notes to Financial Statements
December 31, 2020 and 2019

3. INVESTMENTS RECORDED AT FAIR VALUE

Investments generally consist of mutual funds and certificates of deposit. It is the Foundation's Gift Acceptance Policy to liquidate gifted securities upon receipt. During the year ended December 31, 2019, the Foundation was gifted equity in two venture capital limited partnership through a charitable remainder trust. The Foundation plans to liquidate the investments as soon as it is able to do so. As of December 31, 2020, the expected timing of liquidation of the investee's assets has not been communicated to the Foundation.

The following is a description of the valuation methodologies the Foundation uses for investments measured at fair value. There have been no changes in the methods used.

Mutual Funds - Valued at the daily closing price as reported by the fund. Mutual funds invested in are registered with the Securities and Exchange Commission. The funds are required to publish their daily net asset value and to transact at that price. The mutual funds invested in are deemed to be actively traded.

Following is a description of the valuation methodologies used for assets measured at Net Asset Value ("NAV") as the practical expedient to estimate fair value:

Certificates of Deposits - Valued at the basis of evaluated prices provided by independent pricing services, using the income approach.

Limited Partnerships – Valued using the market approach, on the basis of the relative interest of each participating investor, in the fair value of the underlying net asset of each limited partnership.

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

	Assets at Fair Value as of December 31, 2020			
	Level 1	Level 2	Level 3	Total
Investments:				
Mutual funds	\$ 53,764,386	\$ -	\$ -	\$ 53,764,386
Certificates of deposit*	-	-	-	485,898
Limited partnerships*	-	-	-	576,171
Total investments	<u>\$ 53,764,386</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 54,826,455</u>
	Assets at Fair Value as of December 31, 2019			
	Level 1	Level 2	Level 3	Total
Investments				
Mutual funds	\$ 49,139,262	\$ -	\$ -	\$ 49,139,262
Certificates of deposit*	-	-	-	480,580
Limited partnerships*	-	-	-	502,024
Total investments	<u>\$ 49,139,262</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 50,121,866</u>

* In accordance with Subtopic 820-10, certain investments that were measured at net asset value per share (or its equivalent) have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the statements of financial position.

The Orange Catholic Foundation
Notes to Financial Statements
December 31, 2020 and 2019

Investment income for the years ended December 31, 2020 and 2019 is summarized as follows:

	<u>2020</u>	<u>2019</u>
Interest and dividend income	\$ 55,632	\$ 94,706
Realized and unrealized gain	<u>6,990,778</u>	<u>8,357,675</u>
	<u>\$ 7,046,410</u>	<u>\$ 8,452,381</u>

4. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give as of December 31, 2020 and 2019, all of which are related to the For Christ Forever Capital Campaign and Christ Cathedral Capital Campaign include amounts that have been discounted at rates ranging from 0.10% to 0.27% are as follows:

	<u>2020</u>	<u>2019</u>
Amounts due in		
Less than one year	\$ 3,568,857	\$ 3,670,165
One to five years	421,125	3,046,554
Greater than five years	<u>9,500,000</u>	<u>9,797,539</u>
Total pledges	13,489,982	16,514,258
Less:		
Discount to present value	(28,173)	(243,829)
Reserve for uncollectible promises to give	<u>(2,002,567)</u>	<u>(1,870,463)</u>
	<u>\$ 11,459,242</u>	<u>\$ 14,399,966</u>

As of December 31, 2020 and 2019, an outstanding pledge related to the Christ Cathedral Capital Campaign represented 84.9% and 81.5%, respectively, of total amounts outstanding.

During the year ended December 31, 2020, the Foundation recognized expense related to reserves for potentially uncollectible For Christ Forever Capital Campaign amounts totaling \$40,483. During the year ended December 31, 2019, the Foundation recognized income from a reduction in the reserve for potentially uncollectible For Christ Forever Capital Campaign amounts totaling \$1,227.

During the years ended December 31, 2020 and 2019, the Foundation recognized expense related to reserves for potentially uncollectible Christ Cathedral Capital Campaign Our Lady of La Vang amounts totaling \$179,537 and \$87,264, respectively. During the years ended December 31, 2020 and 2019, the Foundation recognized income from a reduction in the reserve for potentially uncollectible Christ Cathedral Capital Campaign amounts totaling \$47,691 and \$104,088, respectively.

The Orange Catholic Foundation
Notes to Financial Statements
December 31, 2020 and 2019

5. PROPERTY AND EQUIPMENT

Property and equipment at December 31, 2020 and 2019 consists of the following:

	<u>2020</u>	<u>2019</u>
Office furniture and computer equipment	\$ 126,298	\$ 126,298
Leasehold improvements	<u>177,116</u>	<u>177,116</u>
	303,414	303,414
Less: Accumulated depreciation	<u>(239,576)</u>	<u>(211,931)</u>
	<u>\$ 63,838</u>	<u>\$ 91,483</u>

Depreciation expense for the years ended December 31, 2020 and 2019 was \$27,645 and \$31,545, respectively.

6. FOR CHRIST FOREVER AND CHRIST CATHEDRAL CAPITAL CAMPAIGNS

During 2012, the Foundation launched the For Christ Forever Capital Campaign, the purpose of which was to support 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. 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 \$30,464 and \$68,857 for the years ended December 31, 2020 and 2019, respectively.

During 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 revenue amounted to \$543,566 and \$3,087,205 for the years ending December 31, 2020 and 2019, respectively. During the years ending December 31, 2020 and 2019, revenue totaling \$368,976 and \$1,401,250, respectively, was recognized in support of building a future shrine dedicated to Our Lady of La Vang at the Christ Cathedral campus.

As of December 31, 2019, the Capital Campaign Services Agreement with the Diocese of Orange was terminated, and the Foundation will no longer be raising funds for the For Christ Forever Capital Campaign or the Christ Cathedral Capital Campaign. Gifts received in outstanding promises to give and cash will continue to be administered and distributed in accordance with donor intent and the Gift Administration Agreement.

7. PASTORAL SERVICES APPEAL

The Pastoral Services Appeal ("PSA") was an annual fundraising appeal of the Orange Catholic Foundation that raised funds for the benefit of The Roman Catholic Bishop of Orange that were distributed 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. PSA revenues were restricted until they were expended for the pastoral ministry departments and programs as well as distributions to Catholic Charities of Orange County. Any resulting difference between the amount of restricted income received and programs funded remains restricted until expended.

The Orange Catholic Foundation
Notes to Financial Statements
December 31, 2020 and 2019

No amounts were due to parishes on December 31, 2020. The amount due to parishes included in accounts and distributions payable and accrued expenses on December 31, 2019 was \$816,579. As of December 31, 2019, the Foundation no longer raised funds under the PSA.

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, distribution 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. During the administration of the PSA Campaign, a portion of the revenue generated by the campaign was used by the Foundation to pay for the costs associated with providing such services. Due to the termination of the Management Services agreement, no such costs were recorded during the year ended December 31, 2020. During the year ended December 31, 2019, the costs of providing such services totaled \$598,916 and are included in both program and supporting services on the accompanying statement of activities and changes in net assets and the statement of functional expenses.

As of December 31, 2019, the Management Services agreement with the Diocese was terminated. On January 1, 2020, a Gift Administration agreement was entered into with the Diocese, under which the Foundation continues to provide planned giving consultation and education, distribution administration, restricted gift administration, estate and trust gift management and fundraising support to the Catholic community and the Diocese of Orange.

8. ACCOUNTS AND DISTRIBUTIONS PAYABLE AND ACCRUED LIABILITIES

Accounts and distributions payable and accrued liabilities consist of the following at December 31:

	<u>2020</u>	<u>2019</u>
Distributions due for Cathedral campus and organ renovation	\$ 694,150	\$ 441,200
Distributions due for Our Lady of La Vang Shrine	35,175	523,540
Tuition assistance distributions due to Catholic schools	120,480	60,000
Endowment and other distributions due to Catholic organizations	344,262	80,000
PSA distributions due to Diocesan ministries and Catholic affiliates	-	1,101,670
Salaries and wages	15,386	56,402
Vacation	60,092	46,818
Other accrued expenses	61,284	64,196
	<u>\$ 1,330,829</u>	<u>\$ 2,373,826</u>

The Orange Catholic Foundation
Notes to Financial Statements
December 31, 2020 and 2019

9. NET ASSETS

Net assets without donor restrictions at December 31 consist of the following:

	<u>2020</u>	<u>2019</u>
Undesignated	\$ 3,958,078	\$ 4,092,480
Board-designated	<u>1,380,625</u>	<u>1,744,386</u>
	<u>\$ 5,338,703</u>	<u>\$ 5,836,866</u>

Net assets with donor restrictions at December 31 consist of the following:

	<u>2020</u>	<u>2019</u>
Purpose restriction		
For Christ Forever Capital Campaign	\$ 186,966	\$ 789,562
Christ Cathedral Capital Campaign		
Phase 3	10,989,245	13,189,005
Our Lady of La Vang Shrine	288,031	1,095,587
Pastoral Services Appeal	-	8,776
Tuition assistance and distributions to various parishes, schools and Catholic related causes	<u>9,289,297</u>	<u>8,102,046</u>
	20,753,539	23,184,976
Perpetual in nature	<u>44,526,466</u>	<u>40,883,899</u>
	<u>\$ 65,280,005</u>	<u>\$ 64,068,875</u>

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

	<u>2020</u>	<u>2019</u>
Satisfaction of purpose restrictions		
For Christ Forever Capital Campaign	\$ 647,546	\$ 1,173,040
Christ Cathedral Capital Campaign		
Phase 3	2,630,860	4,199,561
Our Lady of La Vang Shrine	1,050,986	9,700,484
Pastoral Services Appeal	8,776	64,232
Tuition assistance and distributions to various parishes, schools and Catholic related causes	<u>1,136,567</u>	<u>1,354,054</u>
	5,474,735	16,491,371
Appropriations from endowments	<u>1,904,495</u>	<u>1,571,116</u>
	<u>\$ 7,379,230</u>	<u>\$ 18,062,487</u>

The Orange Catholic Foundation
Notes to Financial Statements
December 31, 2020 and 2019

10. DESIGNATED NET ASSETS

Through the budgetary process, the Foundation has designated funds for specific purposes which are presented in the accompanying statements of financial position as net assets without donor restrictions.

The Board of Directors created the Orange Catholic Foundation Fund to grow, expand, and improve the Foundation's ability to fulfill its mission to raise, manage, grow, and distribute funds. No amounts were designated to the fund or authorized by the board for expenditure during the years ended December 31, 2020 and 2019. Amounts designated to the Orange Catholic Foundation Fund totaled \$408,650 and \$398,313 as of December 31, 2020 and 2019, respectively.

The Board of Directors also established a reserve for operations. No amounts were designated to the fund or authorized by the board for expenditure during the years ended December 31, 2020 and 2019. Amounts designated to the operating reserve totaled \$485,898 and \$480,580 as of December 31, 2020 and 2019, respectively.

Net assets designated from the Information and Technology Fund have been allocated to provide for distributions to Catholic schools and parishes for information technology upgrades, faith formation, and education. No designations were made during the year ended December 31, 2020. Designations totaling \$510,134 were made to the fund during the year ended December 31, 2019. The fund was reduced by \$400,445 and \$278,015 for distributions and other expenses during the years ended December 31, 2020 and 2019, respectively. Amounts designated to the Information and Technology Fund as of December 31, 2020 and 2019 totaled \$486,077 and \$865,493, respectively.

The total amount of unrestricted net assets with board designations as of December 31, 2020 and 2019 was \$1,380,625 and \$1,744,386, respectively.

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 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.

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 79 individual funds established for a variety of purposes.

The Orange Catholic Foundation
Notes to Financial Statements
December 31, 2020 and 2019

Changes in Endowment Net Assets for the Years Ending December 31, 2020 and 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total</u>
		<u>Purpose</u>	<u>In Perpetuity</u>	
Endowment net assets, January 1, 2019	\$ -	\$ 160,687	\$ 34,552,353	\$ 34,713,040
Contributions	-	-	382,968	382,968
Investment return				
Realized and unrealized gain on investments	-	134,914	6,973,692	7,108,606
Other changes in endowment net assets	-	-	546,002	546,002
Appropriation of endowment for expenditure	1,623,528	(52,412)	(1,571,116)	-
Expenditure of appropriated funds	<u>(1,623,528)</u>	<u>-</u>	<u>-</u>	<u>(1,623,528)</u>
Endowment net assets, December 31, 2019	-	243,189	40,883,899	41,127,088
Contributions	-	-	79,547	79,547
Investment return				
Realized and unrealized gain on investments	-	112,172	5,699,110	5,811,282
Other changes in endowment net assets	-	-	(231,595)	(231,595)
Appropriation of endowment for expenditure	1,926,926	(22,431)	(1,904,495)	-
Expenditure of appropriated funds	<u>(1,926,926)</u>	<u>-</u>	<u>-</u>	<u>(1,926,926)</u>
Endowment net assets, December 31, 2020	<u>\$ -</u>	<u>\$ 332,930</u>	<u>\$ 44,526,466</u>	<u>\$ 44,859,396</u>

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 net assets without donor restriction as of December 31, 2020 and 2019.

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.

The Orange Catholic Foundation
Notes to Financial Statements
December 31, 2020 and 2019

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 has a policy of appropriating a spendable amount for distribution as of January 1 of each year (currently 5%) of each Foundation established endowment fund's average fair market value over the prior twelve quarters. New funds established require a minimum of four quarters performance prior to Jan 1 of each year.

The Foundation has a policy for endowment funds not established by but given to the Foundation of appropriating a spendable amount for distribution as of January 1 of each year, governed by the terms of each individual fund agreement.

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.

12. TRANSACTIONS WITH AFFILIATE

In 2016, the Foundation entered into various service agreements with the Diocese of Orange that outlined specific services to be provided by the Foundation to the Diocese of Orange and by the Diocese of Orange to the Foundation. Each of the agreements was terminated effective December 31, 2019. On January 1, 2020, a Gift Administration agreement was signed to provide the Diocese of Orange with continuing fundraising and stewardship services.

During the years ended December 31, 2020 and 2019, the Foundation incurred rent expense and reimbursable administrative expenses through its service arrangements with the Diocese of Orange totaling \$150,574 and \$269,939, respectively.

The Foundation maintains an office rental agreement with the Diocese of Orange for the rental of the Foundation's main office space. The lease agreement was amended in January 2020 to provide for monthly rents of \$5,742 plus a monthly information technology charge of \$1,720, 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, 2020, the Foundation's future minimum annual lease commitment under the lease agreement is as follows:

2021	\$	65,664
2022		65,664
2023		<u>54,720</u>
	\$	<u>186,048</u>

The Orange Catholic Foundation
Notes to Financial Statements
December 31, 2020 and 2019

13. LEASE OF TRANSMISSION CAPACITY

The Foundation owns broadband spectrum frequency within a certain geographical region of Orange County that allows it to operate equipment which propagates broadband services for educational purposes to users within that region's population. In 2005, the Foundation entered into an agreement with an organization to lease a portion of the spectrum in exchange for monthly lease payments. The agreement has an initial term of 10 years, plus 5 automatic 10 year extensions, with a final maturity date of December 31, 2065. The agreement calls for the Foundation to receive minimum rental payments of \$42,036 per month, to be increased annually by the Consumer Price Index. The Foundation recognized rental income totaling \$504,430 and \$489,662 during the years ended December 31, 2020 and 2019, respectively, which is included in other income in the statements of activities and changes in net assets. Future minimum annual rents under the lease agreement are as follows:

2021	\$ 511,644
2022	511,644
2023	511,644
2024	511,644
2025	511,644
Thereafter	<u>20,465,760</u>
	<u>\$ 23,023,980</u>

14. PPP LOAN PAYABLE AND SUBSEQUENT EVENT

In April 2020, the Foundation was issued an unsecured promissory note for \$259,345 (the "PPP Loan") through the Paycheck Protection Program ("PPP") established under the CARES Act and administered by the U.S. Small Business Administration ("SBA"). The PPP Loan is guaranteed by the SBA. The PPP Loan may be forgiven, in whole or in part, if the Foundation was eligible for the PPP Loan at the time of application, used the loan proceeds for eligible expenses within the defined 8 or 24-week period after the PPP Loan was disbursed ("Covered Period"), and otherwise satisfied PPP requirements. The PPP Loan was made through Farmers and Merchants Bank (the "Lender"), has a two-year term, bears interest at 1.00% per annum, and matures in April 2022. If the PPP Loan is not forgiven, monthly principal and interest payments are deferred until 7 months after the end of the Covered Period. The PPP Loan may be prepaid at any time prior to maturity with no prepayment penalties. Accordingly, the Foundation has reflected the PPP Loan as long-term debt in the accompanying statements of financial position. The Foundation will record the forgiveness of the loan as a gain on extinguishment in the period in which legal release is received.

Subsequent to December 31, 2020, the Foundation was informed that its application for forgiveness of \$259,345 of the PPP Loan was approved. Accordingly, the Foundation will record it as forgiveness of debt in 2021.