

THE ORANGE CATHOLIC FOUNDATION
Financial Statements
June 30, 2021
With Independent Auditor's Report

The Orange Catholic Foundation
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June 30, 2021

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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 statement of financial position as of June 30, 2021 and the related statements of activities and changes in net assets, functional expenses, and cash flows for the period 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.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Foundation as of June 30, 2021, and the changes in its net assets and its cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America.



October 14, 2021

The Orange Catholic Foundation
Statement of Financial Position
June 30, 2021

Assets

Cash and cash equivalents	\$ 1,567,830
Investments	63,595,179
Unconditional promises to give, net	11,250,006
Prepaid expenses and other assets	222,853
Property and equipment, net	<u>63,434</u>
Total assets	<u>\$ 76,699,302</u>

Liabilities and Net Assets

Liabilities

Accounts payable and accrued liabilities	\$ 116,984
Deferred contributions	<u>4,095</u>
Total liabilities	<u>121,079</u>

Net assets

Without donor restrictions	5,445,871
With donor restrictions	<u>71,132,352</u>
Total net assets	<u>76,578,223</u>

Total liabilities and net assets	<u>\$ 76,699,302</u>
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The Notes to Financial Statements are an integral part of this statement.

The Orange Catholic Foundation
Statement of Activities and Changes in Net Assets
Six Months Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and support			
Campaign contributions	\$ 300,644	\$ 280,187	\$ 580,831
Other contributions	75,176	2,863,773	2,938,949
Event revenue	227,603	179,777	407,380
Administrative income	9,256	-	9,256
Interest and dividend income	8,487	953	9,440
Realized and unrealized gain on investments	221,713	4,889,310	5,111,023
Transmission capacity lease income	254,623	-	254,623
Other income	321,382	-	321,382
Forgiveness of PPP loan	259,345	-	259,345
Net assets released from restrictions	<u>2,361,653</u>	<u>(2,361,653)</u>	<u>-</u>
Total revenues and support	<u>4,039,882</u>	<u>5,852,347</u>	<u>9,892,229</u>
Expenses			
Program services	<u>3,373,109</u>	<u>-</u>	<u>3,373,109</u>
Supporting services			
General and administrative	492,587	-	492,587
Fundraising	<u>67,018</u>	<u>-</u>	<u>67,018</u>
Total supporting services	<u>559,605</u>	<u>-</u>	<u>559,605</u>
Total expenses	<u>3,932,714</u>	<u>-</u>	<u>3,932,714</u>
Changes in net assets	107,168	5,852,347	5,959,515
Net assets			
Beginning of period	<u>5,338,703</u>	<u>65,280,005</u>	<u>70,618,708</u>
End of period	<u>\$ 5,445,871</u>	<u>\$ 71,132,352</u>	<u>\$ 76,578,223</u>

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

**The Orange Catholic Foundation
Statement of Functional Expenses
Six Months Ended June 30, 2021**

	<u>Supporting Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising</u>	
Distributions	\$ 2,863,505	\$ -	\$ -	\$ 2,863,505
Salaries	243,414	210,374	42,975	496,763
Payroll taxes	21,327	18,432	3,765	43,524
Employee benefits	26,277	22,296	4,555	53,128
Advertising	59,327	10,954	4,185	74,466
Bad debt expense	20,006	-	-	20,006
Bank and merchant charges	14,394	5,379	839	20,612
Depreciation	6,377	5,511	1,126	13,014
Dues and subscriptions	330	807	-	1,137
Events	35,055	5,020	413	40,488
Meetings and meals	580	4,016	12	4,608
Miscellaneous	304	2,422	35	2,761
Office supplies	1,386	6,112	130	7,628
Postage	16,872	2,503	294	19,669
Professional fees	43,929	183,455	5,567	232,951
Property insurance	420	363	74	857
Rent	16,088	13,904	2,840	32,832
Telephone	865	748	153	1,766
Travel and mileage	489	291	55	835
In-kind expenses	2,164	-	-	2,164
	<u>\$ 3,373,109</u>	<u>\$ 492,587</u>	<u>\$ 67,018</u>	<u>\$ 3,932,714</u>

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

The Orange Catholic Foundation
Statement of Cash Flows
Six Months Ended June 30, 2021

Operating activities	
Changes in net assets	\$ 5,959,515
Adjustments to reconcile changes in net assets to net cash used in operating activities	
Realized and unrealized gain on investments	(5,111,023)
Change in reserve for uncollectible promises to give	(171,977)
Depreciation	13,014
Forgiveness of PPP loan	(259,345)
(Increase) decrease in	
Unconditional promises to give	381,213
Prepaid expenses and other assets	(80,636)
Increase (decrease) in	
Accounts and distributions payable and accrued liabilities	(1,213,845)
Deferred contributions	<u>2,595</u>
Net cash used in operating activities	<u>(480,489)</u>
Investing activities	
Purchases of investments	(6,828,729)
Proceeds from sale of investments	3,171,028
Purchases of property and equipment	<u>(12,610)</u>
Net cash used in investing activities	<u>(3,670,311)</u>
Net change in cash and cash equivalents	(4,150,800)
Cash and cash equivalents	
Beginning of period	<u>5,718,630</u>
End of period	<u>\$ 1,567,830</u>

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

The Orange Catholic Foundation
Notes to Financial Statements
June 30, 2021

1. NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

The Orange Catholic Foundation (the "Foundation") is a California not-for-profit religious corporation organized to receive and manage charitable gifts, grants, contributions and bequests from individuals and organizations in order to benefit Catholic parishes, schools and ministries primarily within the Diocese of Orange, California. Gifts and donations may either be held and managed by the Foundation, or funds may be distributed and granted to various entities and ministries in accordance with donor intent.

Funds may be with or without donor restriction and may include donor-advised funds, special interest funds, and endowment funds. The 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, the 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 not-for-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 regular 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 ("US GAAP").

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 statement of activities and changes in net assets.

The Orange Catholic Foundation
Notes to Financial Statements
June 30, 2021

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 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.

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 June 30, 2021, the Foundation evaluated the collectability of unconditional promises to give and recorded an allowance for doubtful accounts of \$1,995,007.

Property and Equipment

Property and equipment are 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 six months ended June 30, 2021.

The Orange Catholic Foundation
Notes to Financial Statements
June 30, 2021

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 statement of financial position. Total pass-through funds were \$603,504 and total custodial funds held by the Foundation amounted to \$249,533 as of June 30, 2021.

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 statement 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 period as unrestricted support.

Event revenues represent contributions recognized in the period received which are then distributed at the discretion of the Foundation.

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. \$2,164 of gifts in-kind were recorded for the six months ended June 30, 2021 which is included in other contributions on the statement of activities and changes in net assets.

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 statement of activities and changes in net assets because they do not meet the necessary criteria for recognition under the accounting principles generally accepted in the United States of America.

The Orange Catholic Foundation
Notes to Financial Statements
June 30, 2021

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 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 ("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. The liability is included in accounts payable and accrued liabilities on the statement of financial position.

Functional Allocation of Expenses

These are the costs of providing the various programs and other activities and have been summarized on a functional basis in the statement 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 statement 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 distributions and bad debt expense 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
June 30, 2021

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

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 the amounts disclosed.

The Orange Catholic Foundation
Notes to Financial Statements
June 30, 2021

Recent Accounting Pronouncements Not Yet Adopted

In September 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“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, 2021. The Foundation is currently evaluating the impact of this ASU on the financial statements.

Subsequent Events

The Foundation evaluated subsequent events through October 14, 2021, 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.

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
June 30, 2021

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 for six-month period ended June 30, 2021:

Financial assets at period end	
Cash and equivalents	\$ 1,567,830
Investments	63,595,179
Unconditional promises to give, net	11,250,006
Other assets	<u>14,667</u>
Total financial assets	<u>76,427,682</u>
Less: Financial assets not available for general expenditures within one year:	
Investments held in perpetuity	(48,843,603)
Unconditional promises to give, due after one year, net	(9,976,752)
Board designated operating reserve	<u>(1,387,063)</u>
Financial assets not available to be used within one year	<u>(60,207,418)</u>
Financial assets available to meet general expenditures within one year	<u>\$ 16,220,264</u>

The following table represents the Foundation's core operating financial assets available for expenditure for six-month period ended June 30, 2021:

Financial assets available to meet general expenditures within one year	<u>\$ 16,220,264</u>
Less: Financial assets with donor restrictions not to be used for core operating purposes	
Cash restricted for distributions	(510,588)
Investments restricted for distributions	(10,314,849)
Unconditional promises to give expected to be collected within one year, with donor restrictions, net	<u>(2,601,803)</u>
	<u>(13,427,240)</u>
Financial assets available to meet core operating needs within one year	<u>\$ 2,793,024</u>

The Orange Catholic Foundation
Notes to Financial Statements
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3. INVESTMENTS RECORDED AT FAIR VALUE

Investments generally consist of mutual funds. It is the Foundation's Gift Acceptance Policy to liquidate gifted securities upon receipt. The Foundation was gifted equity in two venture capital limited partnerships through a charitable remainder trust. The Foundation plans to liquidate the investments as soon as it is able to do so. As of June 30, 2021, 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:

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 June 30, 2021:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Mutual funds	\$ 63,037,438	\$ -	\$ -	\$ 63,037,438
Limited partnerships*	-	-	-	557,741
Total investments	<u>\$ 63,037,438</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 63,595,179</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 statement of financial position.

Investment income for the six months ended June 30, 2021, which is net of related investment fees, is summarized as follows:

Interest and dividend income	\$ 9,440
Realized and unrealized gain	<u>5,111,023</u>
	<u>\$ 5,120,463</u>

The Orange Catholic Foundation
Notes to Financial Statements
June 30, 2021

4. UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give as of June 30, 2021 include amounts that have been discounted at rates ranging from 0.07% to 0.67% and are as follows:

Amounts due in	
Less than one year	\$ 3,296,434
One to five years	460,941
Greater than five years	<u>9,515,811</u>
Total pledges	13,273,186
Less:	
Reserve for uncollectible promises to give	(1,995,007)
Discount to present value	<u>(28,173)</u>
	<u>\$ 11,250,006</u>

As of June 30, 2021, an outstanding pledge related to the Christ Cathedral Capital Campaign represented 86.3% of the total amount outstanding.

During the six months ended June 30, 2021, the Foundation recognized expense related to reserves for potentially uncollectible pledges of \$20,000.

5. PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2021 consists of the following:

Office furniture and computer equipment	\$ 136,788
Leasehold improvements	<u>177,116</u>
	313,904
Less: Accumulated depreciation	<u>(250,470)</u>
	<u>\$ 63,434</u>

Depreciation expense for the six months ended June 30, 2021 was \$13,014.

6. ACCOUNTS AND DISTRIBUTIONS PAYABLE AND ACCRUED LIABILITIES

Accounts and distributions payable and accrued liabilities consist of the following at June 30, 2021:

Salaries and wages	\$ 10,796
Vacation	55,511
Other accrued expenses	<u>50,677</u>
	<u>\$ 116,984</u>

The Orange Catholic Foundation
Notes to Financial Statements
June 30, 2021

7. NET ASSETS

Net assets without donor restrictions at June 30, 2021 consist of the following:

Undesignated	\$ 4,058,808
Board-designated	<u>1,387,063</u>
	<u>\$ 5,445,871</u>

Net assets with donor restrictions at June 30, 2021 consist of the following:

Purpose restriction	
For Christ Forever Capital Campaign	\$ 69,717
Christ Cathedral Capital Campaign	
Phase 3	10,648,722
Our Lady of La Vang Shrine	262,801
Tuition assistance and distributions to various	
parishes, schools and Catholic related causes	<u>11,307,509</u>
	22,288,749
Perpetual in nature	<u>48,843,603</u>
	<u>\$ 71,132,352</u>

Net assets with donor restrictions were released during the six months ended June 30, 2021 for the following purposes:

Satisfaction of purpose restrictions	
For Christ Forever Capital Campaign	\$ 134,635
Christ Cathedral Capital Campaign	
Phase 3	340,522
Our Lady of La Vang Shrine	288,031
Pastoral Services Appeal	-
Tuition assistance and distributions to various	
parishes, schools and Catholic related causes	<u>100,113</u>
	863,301
Appropriations from endowments	<u>1,498,352</u>
	<u>\$ 2,361,653</u>

8. 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 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. Designations totaling \$974,133 were made to the fund during the six months ended June 30, 2021 which represented the remaining balances of the former OCF Operations Reserve and Information and Technology funds. Amounts designated to the Orange Catholic Foundation Fund totaled \$1,387,063 as of June 30, 2021.

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9. 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.

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 approximately 80 individual funds established for a variety of purposes.

Changes in Endowment Net Assets for the Six Months Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>		<u>Total</u>
		<u>Purpose</u>	<u>In Perpetuity</u>	
Endowment net assets, December 31, 2020	\$ -	\$ 332,930	\$ 44,526,466	\$ 44,859,396
Contributions	-	-	1,766,480	1,766,480
Investment return				
Realized and unrealized gain on investments	-	78,747	4,049,009	4,127,756
Appropriation of endowment for expenditure	1,520,356	(22,004)	(1,498,352)	-
Expenditure of appropriated funds	<u>(1,520,356)</u>	<u>-</u>	<u>-</u>	<u>(1,520,356)</u>
Endowment net assets, June 30, 2021	<u>\$ -</u>	<u>\$ 389,673</u>	<u>\$ 48,843,603</u>	<u>\$ 49,233,276</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 June 30, 2021.

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.

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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 January 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.

10. 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 six months ended June 30, 2021, the Foundation incurred rent expense and reimbursable administrative expenses through its service arrangements with the Diocese of Orange totaling \$77,195.

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 rent of \$5,472 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 June 30, 2021, the Foundation's future minimum annual lease commitment under the lease agreement is as follows:

2021	\$	65,664
2022		65,664
2023		<u>21,888</u>
	\$	<u>153,216</u>

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11. 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 \$254,623 during the six months ended June 30, 2021 in the statement of activities and changes in net assets. Future minimum annual rents under the lease agreement are as follows:

2022	\$	511,644
2023		511,644
2024		511,644
2025		511,644
2026		511,644
Thereafter		<u>20,209,938</u>
		<u>\$ 22,768,158</u>

12. PAYROLL PROTECTION PROGRAM

In April 2020, the Foundation received a loan in the amount of \$259,345 under the Paycheck Protection Program ("PPP") established under the CARES Act and administered by the U.S. Small Business Administration ("SBA"). The loan was guaranteed by the SBA and was for a 2-year term at a 1.0% interest rate. The Foundation used the proceeds to fund payroll and other allowable expenses under the PPP and prior to June 30, 2021, the Foundation was informed that it received full forgiveness of the PPP loan. Accordingly, the Foundation recognized the amount as debt forgiveness in the accompanying statement of activities and changes in net assets for the year ended June 30, 2021.