



REPORT OF INDEPENDENT AUDITORS AND
FINANCIAL STATEMENTS

THE ADMINISTRATIVE OFFICE OF THE
ROMAN CATHOLIC BISHOP OF ORANGE,
A CORPORATION SOLE

June 30, 2018 and 2017

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Report of Independent Auditors

The Most Reverend Kevin W. Vann, J.C.D., D.D.

The Administrative Office of the Roman Catholic Bishop of Orange, a Corporate Sole

Report on the Financial Statements

We have audited the accompanying financial statements of The Administrative Office of the Roman Catholic Bishop of Orange, a Corporation Sole, which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities 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 Administrative Office of the Roman Catholic Bishop of Orange, a Corporation Sole, as of June 30, 2018 and 2017, and the changes in net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Diego, California
November 30, 2018

**The Administrative Office of
The Roman Catholic Bishop of Orange,
A Corporation Sole
Statements of Financial Position**

		June 30,	
		2018	2017
ASSETS			
Cash and cash equivalents		\$ 21,877,616	\$ 21,873,732
Receivables			
Pledge receivable (Note 3)		1,228,146	1,651,400
Receivables from other related institutions and cemetery sales, net (Note 3)		21,377,133	16,162,915
Loans receivable from parishes and schools, net (Note 3)		8,917,862	455,569
Loans receivable from related institutions, net (Note 3)		4,288,647	60,027,110
Investments			
Long-term investments (Note 4)		144,605,723	169,355,466
Permanently restricted endowment (Note 4)		2,670,497	2,670,497
Investments held in trust for others (Notes 4 and 7)		134,953,427	109,571,008
Cemetery inventory (Note 5)		16,952,808	17,625,961
Property, equipment, and improvements, net (Note 6)		42,645,863	42,515,413
Other assets		169,110	353,501
Total assets		\$ 399,686,832	\$ 442,262,572
LIABILITIES AND NET ASSETS			
Liabilities			
Accounts payable and accrued expenses		\$ 7,889,667	\$ 5,100,634
Parish and other deposits		4,996,193	4,676,907
Investments held in trust for others (Note 7)		134,953,427	109,571,008
Deferred amounts		34,710,694	28,357,650
Notes payable (Note 8)		1,179,214	56,713,666
Priests' pension/post-retirement benefits accrual (Note 9)		29,024,000	31,050,000
Other liabilities		810,309	469,371
Total liabilities		213,563,504	235,939,236
Net Assets (Note 10)			
Unrestricted			
Undesignated		41,694,647	32,002,287
Designated for specific purposes		123,720,780	154,389,054
Total unrestricted		165,415,427	186,391,341
Temporarily restricted		17,832,415	17,056,509
Permanently restricted (Note 11)		2,875,486	2,875,486
Total net assets		186,123,328	206,323,336
Total liabilities and net assets		\$ 399,686,832	\$ 442,262,572

**The Administrative Office of
The Roman Catholic Bishop of Orange,
A Corporation Sole
Statement of Activities**

	Year Ended June 30, 2018			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE AND SUPPORT				
Contributions, grants, and bequests	\$ 476,837	\$ 5,317,540	\$ -	\$ 5,794,377
Diocesan assessments	8,026,486	-	-	8,026,486
Diocesan programs	7,210,909	-	-	7,210,909
Cemetery operations	21,850,551	-	-	21,850,551
Investment gain	10,000,000	-	-	10,000,000
Insurance programs	37,058,974	-	-	37,058,974
Net assets released from restrictions (Note 10)	4,541,634	(4,541,634)	-	-
Total revenue and support	89,165,391	775,906	-	89,941,297
EXPENSES				
Program services:				
Diocesan pastoral ministries	7,415,667	-	-	7,415,667
Clergy support programs	1,902,812	-	-	1,902,812
Investment programs	2,203,585	-	-	2,203,585
Cemetery operations	11,752,374	-	-	11,752,374
Insurance programs	34,748,693	-	-	34,748,693
Grants, donations, and scholarships (Note 13)	42,458,416	-	-	42,458,416
Support services:				
Diocesan administration	22,327,258	-	-	22,327,258
Total expenses	122,808,805	-	-	122,808,805
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	(33,643,414)	775,906	-	(32,867,508)
Investment program (Note 4)	20,893,717	-	-	20,893,717
Investment program distributed	(10,000,000)	-	-	(10,000,000)
Other income, net	57,783	-	-	57,783
Other comprehensive pension gain (Note 9)	1,716,000	-	-	1,716,000
CHANGE IN NET ASSETS	(20,975,914)	775,906	-	(20,200,008)
NET ASSETS				
Beginning of year	186,391,341	17,056,509	2,875,486	206,323,336
End of year	\$ 165,415,427	\$ 17,832,415	\$ 2,875,486	\$ 186,123,328

**The Administrative Office of
The Roman Catholic Bishop of Orange,
A Corporation Sole
Statement of Activities (continued)**

	Year Ended June 30, 2017			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
REVENUE AND SUPPORT				
Contributions, grants, and bequests	\$ 598,445	\$ 7,417,618	\$ -	\$ 8,016,063
Diocesan assessments	7,921,878	-	-	7,921,878
Diocesan programs	7,321,149	-	-	7,321,149
Cemetery operations	16,778,662	-	-	16,778,662
Investment gain	10,000,000	-	-	10,000,000
Insurance programs	34,750,106	-	-	34,750,106
Net assets released from restrictions (Note 10)	9,396,301	(9,396,301)	-	-
Total revenue and support	<u>86,766,541</u>	<u>(1,978,683)</u>	<u>-</u>	<u>84,787,858</u>
EXPENSES				
Program services:				
Diocesan pastoral ministries	8,028,256	-	-	8,028,256
Clergy support programs	1,778,158	-	-	1,778,158
Investment programs	5,582,756	-	-	5,582,756
Cemetery operations	9,537,818	-	-	9,537,818
Insurance programs	29,625,459	-	-	29,625,459
Grants, donations, and scholarships (Note 13)	15,072,550	-	-	15,072,550
Support services:				
Diocesan administration	17,008,410	-	-	17,008,410
Total expenses	<u>86,633,407</u>	<u>-</u>	<u>-</u>	<u>86,633,407</u>
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	133,134	(1,978,683)	-	(1,845,549)
Investment program (Note 4)	31,647,358	-	-	31,647,358
Investment program distributed	(10,000,000)	-	-	(10,000,000)
Other comprehensive pension gain (Note 9)	2,509,000	-	-	2,509,000
Transfer of St. Catherine of Siena property (Note 3)	16,980,000	-	-	16,980,000
Gain on transfer and sale of assets, net	2,320,125	-	-	2,320,125
CHANGE IN NET ASSETS	43,589,617	(1,978,683)	-	41,610,934
NET ASSETS				
Beginning of year	<u>142,801,724</u>	<u>19,035,192</u>	<u>2,875,486</u>	<u>164,712,402</u>
End of year	<u>\$ 186,391,341</u>	<u>\$ 17,056,509</u>	<u>\$ 2,875,486</u>	<u>\$ 206,323,336</u>

**The Administrative Office of
The Roman Catholic Bishop of Orange,
A Corporation Sole
Statements of Cash Flows**

	Years Ended June 30,	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (20,200,008)	\$ 41,610,934
Adjustments to reconcile change in net assets to net cash from operating activities:		
Change in allowance for doubtful accounts	(848,638)	(12,324,133)
Change in value of beneficial interest in charitable remainder trust	-	105,069
Unrealized loss (gain) on investments	7,126,351	(18,374,989)
Realized gains on sale of investments	(21,857,358)	(6,546,371)
Depreciation	2,676,805	2,123,608
Transfer of St. Catherine of Siena property	-	(16,980,000)
Net loss on sales and disposal of property	-	400,359
Change in priests' pension and post-retirement benefits accrual	(1,716,000)	(2,509,000)
Change in fair value of swap	(30,716)	(432,444)
Change in operating assets and liabilities:		
Receivables	(5,207,402)	11,783,934
Cemetery inventory	673,153	(8,549)
Other assets	184,391	499,963
Accounts payable and accrued expenses	2,509,749	313,161
Parish and other deposits	319,286	261,058
Equity of investments held in trust for other	18,596,528	(12,513,552)
Deferred amounts	6,353,044	4,479,454
Other liabilities	340,938	(130,484)
Net cash used in operating activities	<u>(11,079,877)</u>	<u>(8,241,982)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment, and improvements	(2,807,255)	(3,231,511)
Proceeds from sale of property	-	981,611
Purchase of investments	(113,501,452)	(30,817,562)
Proceeds from sales of investments	127,599,783	23,972,077
Loans made to parishes, schools, and other institutions	(878,439)	(1,220,322)
Payments received on loans made to parishes, schools, and other institutions	805,576	1,265,861
Net cash provided by (used in) investing activities	<u>11,218,213</u>	<u>(9,049,846)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments made on notes payable	(134,452)	-
Net cash used in financing activities	<u>(134,452)</u>	<u>-</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	3,884	(17,291,828)
CASH AND CASH EQUIVALENTS		
Beginning of year	<u>21,873,732</u>	<u>39,165,560</u>
End of year	<u>\$ 21,877,616</u>	<u>\$ 21,873,732</u>

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest	<u>\$ 36,192</u>	<u>\$ 928,280</u>
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**The Administrative Office of
The Roman Catholic Bishop of Orange,
A Corporation Sole
Statements of Cash Flows (Continued)**

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES

Write off due to release of legal obligation on notes payable (Note 8)	<u>\$ (55,400,000)</u>	<u>\$ -</u>
Write off of loans receivable due from CCCFC (Note 3)	<u>\$ 55,400,000</u>	<u>\$ -</u>
Loans due from parishes to Trust, transferred to the Organization	<u>\$ 6,785,891</u>	<u>\$ -</u>
Write off due to release of legal obligation on bonds payable	<u>\$ -</u>	<u>\$ (20,319,593)</u>
Write off of bonds receivable due from SMCHS	<u>\$ -</u>	<u>\$ 20,319,593</u>
Transfer of St. Catherine of Siena property (Note 3)	<u>\$ -</u>	<u>\$ 16,980,000</u>
Sale of property in exchange for note receivable	<u>\$ -</u>	<u>\$ 1,400,000</u>
Purchase of Cemetery Memorial Gardens inventory, in exchange for note payable (Notes 5 and 8)	<u>\$ -</u>	<u>\$ 1,278,334</u>

The Administrative Office of The Roman Catholic Bishop of Orange, A Corporation Sole

Notes to Financial Statements

Note 1 – The Organization

The Administrative Office of the Roman Catholic Bishop of Orange was established in 1976 and encompasses an area of 782 square miles along 42 miles of the Southern California coastline. The Bishop is the sole member of the Organization and maintains direct operational control over the Organization, which provides oversight over 63 diocesan parishes and centers, 3 high schools, and 31 elementary schools.

The accompanying financial statements include only those assets, liabilities, and operations of departments for which the Administrative Office of the Diocese of Orange (the “Organization”) maintains direct operational control. These financial statements do not include the assets, liabilities, and operations of the parishes, high schools, elementary schools, or any other affiliated organizations under the jurisdiction of the Roman Catholic Bishop of Orange, except for transactions with the Organization as reflected on the books and records of the Organization.

The Bishop is also the sole member of a number of other organizations described below. These organizations maintain independent governing boards or charters. The Bishop does not maintain direct operational control over these organizations.

Christ Catholic Cathedral Corporation (CCCC) administers religious, charitable, and educational activities hosted on the Christ Cathedral campus, and manages the operations of the Cathedral campus including strategic planning, development, and marketing. Effective July 2016, the Organization took over the operations of the campus and assumed all rights and obligations from CCCC. CCCC is continuing to manage the renovation and construction costs of the Christ Cathedral. This activity is not included in the accompanying statements.

Christ Catholic Cathedral Facilities Corporation (CCCFC) holds title to the Christ Cathedral property. It leases the entire property to CCCC under a master lease agreement. Its purpose is to operate, renovate, and sublease the property. The debt for the acquisition of the Christ Cathedral property was held by the Organization, and a loan was then issued by the Organization to CCCFC to finance the purchase of the Christ Cathedral property. In July 2017, the acquisition debt (Note 8) was refinanced resulting in the debt service cost being paid by CCCFC. A master lease agreement was signed between the Organization and CCCFC in which the Organization’s lease expense is equal to the debt service cost of the property loan.

Orange Catholic Foundation (OCF) is organized to receive gifts, grants, contributions, and bequests from donors for the purpose of supporting religious purposes and programs.

Catholic Charities of Orange County (CCOC) is organized to provide professional social services to individuals in need, and provide education and resources to support parish ministries.

Roman Catholic Bishop of Orange Revocable Trust (the “Trust”) was formed to hold assets as an agent for Trustors. The Trustors are certain parishes and schools affiliated with the Organization. The Trust invests and distributes the assets in accordance with the Trust Agreements.

**The Administrative Office of
The Roman Catholic Bishop of Orange,
A Corporation Sole
Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies and Basis of Presentation

A summary of the significant accounting policies applied in the preparation of the accompanying financial statements are as follows:

Tax exempt status – The Organization has been designated as a tax-exempt entity by the Internal Revenue Service except to the extent of unrelated business taxable income as defined under Internal Revenue Code (IRC) Sections 511 through 515 and the California Franchise Tax Board under Sections 501(c)(3) and 23701d, respectively. Accordingly, no tax provision has been recorded in the financial statements.

The Organization had no unrecognized tax benefits at either June 30, 2018 or 2017, and had no uncertain tax positions. The Organization is required to report unrelated business income, if any.

Basis of accounting – The financial statements of the Organization have been prepared on the accrual basis of accounting.

Net assets – The accounts of the Organization are maintained in accordance with principles of net asset accounting. This accounting is the procedure by which resources for various purposes are classified into net asset categories in accordance with specific activities or objectives. For financial statement purposes, all financial transactions are reported by the following net asset categories:

Unrestricted net assets – Consist of resources of the Organization that have not been restricted by a donor. The major sources of revenue are diocesan assessments and programs, investment activity, insurance programs, and cemetery operations. Included in unrestricted net assets are amounts which have been designated by the Bishop, primarily for insurance reserves, debt reduction reserves, plant and Cathedral renovations, and cemetery replacement and maintenance costs.

Temporarily restricted net assets – Consist of contributions of cash and other assets received with donor stipulations that limit the use of donated assets. Donor restrictions are stipulated by either a time restriction or purpose restriction. Upon expiration of time restriction or completion of a purpose restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Permanently restricted net assets – Consist of contributions of cash and other assets received from donors to provide a permanent source of income. If the donor does not restrict the allowed use of the income, the Organization may determine the income's availability to the Organization's operations.

Fair value measurements – The Organization determines the fair value of assets and liabilities consistent with a fair value framework which provides for a clearer definition of fair value for financial reporting, establishes a hierarchy for measuring fair value, and requires additional disclosures about the use of fair value measurements.

**The Administrative Office of
The Roman Catholic Bishop of Orange,
A Corporation Sole
Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies and Basis of Presentation (continued)

Fair value measurement reporting provides a consistent definition of fair value which focuses on an exit price, which is 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 standard also prioritizes, within the measurement of fair value, the use of market-based information over entity-specific information and establishes a three-level hierarchy for fair value measurements based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

In certain cases, inputs used to measure fair value may fall into different levels of the fair value hierarchy. In such cases, an investment's level within the fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement. The Organization's assessment of the significance of a particular input to the fair value measurement in its entirety requires judgment, and considers factors specific to the investment.

Use of estimates – In preparing financial statements in conformity with generally accepted accounting principles in the United States, management makes estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Concentrations of credit risk – Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash, money-market funds, receivables, and investments in securities. The Organization places its cash and money-market investments in money-market funds of multiple financial institutions and investment managers to mitigate this risk.

At times throughout the year, the balances of cash and cash equivalents and investments may exceed amounts insured by the Federal Deposit Insurance Corporation (FDIC) or Securities Investors Protection Corporation (SIPC) limits. Investments in securities are held by various custodial brokers and fund managers. The Organization has not experienced any losses in cash and investment accounts.

Concentrations of credit risk exist with respect to receivables since generally all are due from parishes and other institutions located within the Roman Catholic Diocese of Orange.

**The Administrative Office of
The Roman Catholic Bishop of Orange,
A Corporation Sole
Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies and Basis of Presentation (continued)

Cash and cash equivalents – The Organization considers all highly-liquid investments with an initial maturity of three months or less at purchase to be cash equivalents.

Receivables from related institutions and cemetery sales – Receivables represent current charges assessed for services and centrally-administered programs rendered to parishes, schools, and other institutions within the Roman Catholic Diocese of Orange, as well as cemetery receivables and grants receivable. Such amounts are due in regular payments throughout the year and are deemed to be fully collectible unless a parish/institution has an unexpected material adverse change in its ability to meet its financial obligations. In that case, the Organization will record an allowance as described below.

Loans receivable from parishes, schools, and related institutions – Loans to parishes, schools, and related institutions represent extended credit to these entities. Credit is extended based upon evaluation of the borrowing entity's financial condition and other factors. Generally, collateral is not specifically required; however, the parishes, schools, and related institutions have property or other liquid assets which could serve as collateral. Loans are either due on demand by the Organization or in accordance with scheduled payments. Interest accrues on loans receivable monthly in accordance with the interest rates applicable to the loans. The average interest rate in the years ended June 30, 2018 and 2017, was 2.39 percent and 2.81 percent, respectively. The Organization considers all loans to be interest bearing and accrues interest on all outstanding balances. If a loan is deemed to have collection issues, the Organization will provide for an allowance as described below. If a loan is deemed fully uncollectible, it is written off against the allowance in the period so deemed.

Allowance for doubtful accounts – The Organization provides an allowance for receivables and loans it believes it may not collect in full. The Organization recognizes reserves for bad debts based on its historical collection experience. If circumstances change (i.e., higher than expected defaults or an unexpected material adverse change in an institution's ability to meet its financial obligations), the Organization's estimates of the recoverability of amounts due may change in the near term.

At June 30, 2018 and 2017, the total allowance was \$2,083,551 and \$2,932,189, respectively.

Investments – Investments are recorded at fair value. The Organization recognizes purchases and sales of investments as of the settlement date. Unrealized gains and losses are included in the statements of activities. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

The Organization presents the portion of investment gain distributed for its operating needs as revenue and support in the statements of activities, and presents the total investment program gain, along with the reduction for the portion distributed, as other changes in net assets in the statements of activities. With the advice and consent of the Diocesan Finance Council, the Organization distributed \$10,000,000 of investment gain for its operating needs for the years ended June 30, 2018 and 2017.

**The Administrative Office of
The Roman Catholic Bishop of Orange,
A Corporation Sole
Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies and Basis of Presentation (continued)

The following describes the valuation methodologies used for instruments measured at fair value on a recurring basis and recognized in the accompanying statements of financial position. There were no changes to the Organization's valuation methodologies from 2017 to 2018.

Where quoted market prices are available in an active market, securities are classified within Level 1 of the valuation hierarchy. Level 1 securities include certain mutual funds, common stocks, and equities. Fair value is based on quoted market prices for those traded with sufficient frequency. Level 2 securities include corporate, foreign and government bonds. These investments are valued based on quoted market prices of comparable assets.

Values are based on information provided by fund managers, external investment advisors, and additional factors to determine if the carrying value of these investments should be adjusted. In determining valuation adjustments, emphasis is placed on market participants' assumptions and market-based information over entity-specific information.

Investments that represent securities that are not publicly traded are stated at estimated fair value based upon the financial data supplied by the individual funds as of the end of each fiscal year and/or the net asset value (NAV), or its equivalent, of the fund. In establishing the estimated fair value, management may give consideration to operating results, financial condition, recent sales prices of issuers' securities, and other pertinent information, including the advice of its investment manager.

The Organization recognizes that there are inherent risks associated with both non-publicly and publicly-traded securities. Risk is managed through rigorous evaluation before an investment is made, quarterly monitoring of valuations, and regular communication with investment managers. The Organization may also have risk associated with its concentration of investments in certain geographic areas and certain industries.

Derivative instruments entered into by the Organization involve, to varying degrees, elements of credit risk, in the event a counterparty should default, and market risk, as the instruments are subject to interest rate fluctuations. Credit risk is managed through the use of counterparty diversification and monitoring of counterparty financial condition.

Permanently restricted endowment investments – Bequests and other contributed funds which are restricted by donors according to the designated purpose stipulated are held in endowment investment funds, separate from unrestricted and pledged investments (see Note 11). Amounts are recorded at fair value.

Investments held in trust for others – A separate asset and liability equal to the entire amount of "Investments Held in Trust for Others" are shown in the Organization's statements of financial position (see Note 7).

**The Administrative Office of
The Roman Catholic Bishop of Orange,
A Corporation Sole
Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies and Basis of Presentation (continued)

The Roman Catholic Diocese of Orange Revocable Trust (the “Trust”), a related party, was established and commenced financial operations in June 2011. The Trust was created to serve and benefit the Roman Catholic parishes and schools and the Roman Catholic charitable corporations located within the Roman Catholic Diocese of Orange. Deposit funds that are held in trust (see Note 7) are managed, but not owned, by the Organization. Each parish and school that has placed funds with the Trust has entered into a master subtrust agreement with the Trust. The Trust serves as an agent for the parishes and other institutions and therefore the assets are not owned by the Trust. The Trust invests and distributes the assets in accordance with the provisions of subtrust agreements. Deposits held on behalf of the Trust are held as investments in equity securities, mutual funds, and debt securities. The Organization allocates the actual income (or loss) of the Organization’s share of the Trust’s investment portfolio. Investment securities are exposed to various risks such as interest rate, market, and credit risks. It is reasonably possible that the estimated fair value of investment securities will change significantly in the future, with the result that the carrying amount of the investment securities may change materially, based on market conditions and risk associated with certain investment securities. The investments held in trust are maintained by the Organization according to their investment policy.

Cemetery inventory – Cemetery land development costs are charged to cost of sales as graves are sold on an average cost basis. Land development work in process represents areas being developed and not presently available for use.

Property, equipment, and improvements – Property, equipment, and improvements are carried at cost, or estimated fair value at the date of donation. Depreciation is provided using the straight–line method over the estimated useful lives of the assets ranging from 3 to 40 years. The Organization capitalizes assets with a cost or donated value of \$2,500 or more.

Equipment used for property maintenance, repairs, and minor replacements is charged to expense; additions and betterments are added to the property account at cost. When property is retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in the statements of activities.

Impairment of long-lived assets – The Organization evaluates long-lived assets, including property, equipment, and improvements, for impairment whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. If the estimated future cash flows (undiscounted and without interest charges) from the use of an asset are less than the carrying value, a write-down would be recorded to reduce the related asset to its estimated fair value. There were no write-downs during the years ended June 30, 2018 and 2017.

**The Administrative Office of
The Roman Catholic Bishop of Orange,
A Corporation Sole
Notes to Financial Statements**

Note 2 – Summary of Significant Accounting Policies and Basis of Presentation (continued)

Revenue recognition

- *Contributions, Grants, and Bequests* – Contributions, grants, and bequests are considered to be available for unrestricted use unless they are specifically restricted by the donor. Contributions received designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted contribution revenue. The Organization recognizes all unconditional contributions and promises to give in the period notified. Unconditional promises to give expected to be collected in future years are recorded at the discounted present value of their estimated future cash flows using the risk-free rate applicable to the years in which the promises are received. Conditional promises to give or intentions to give are not recorded in the financial statements until the conditions are substantially met. Pastoral Services Appeal (PSA) contributions are included in contributions, grants, and bequests in the statements of activities.
- *Cemetery Operations* – Revenue from cemetery operations is generated through at-need and pre-need programs. At-need and pre-need sales are made by cemetery-employed arrangement counselors. Sales and cost of sales related to at-need sales contracts and grave plots, crypts, and niches for pre-need sales contracts are recognized at the time of the sale. The sales and cost of sales related to resale products and services are deferred and recognized at fulfillment. Cost of sales is calculated by allocating total construction costs to the number of inventory units developed at a cemetery. Revenue related to predevelopment sales is deferred until construction begins.
- *Diocesan Assessments, Diocesan Programs, and Insurance Programs* – Revenue from diocesan assessments, diocesan programs, and insurance programs are for amounts owed to the Organization by parishes and schools and include items such as diocesan assessments, medical insurance, property insurance, property taxes, clergy support, and parish services. These amounts are recorded when the related expense is incurred.

Deferred amounts – Deferred revenue consists of the pre-need sale of burial services and other non-grave items that are deliverable in the future at the time of burial, such as interment fees, setting fees, markers, vaults, and flowers. Sales of graves, lawn crypts, mausoleum crypts, and cremation niches are recognized as current revenue at the time of sale, whether pre-need or at-need. Deferred revenue also includes interest charges on long-term installment contracts related to pre-need sales, which are recognized as installment payments as received.

Contributed services – The Organization receives a substantial amount of contributed services in carrying out its ministry. These services do not meet the recognition criteria under generally accepted accounting principles. Accordingly, the value of these contributed services is not reflected in the accompanying financial statements.

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Note 2 – Summary of Significant Accounting Policies and Basis of Presentation (continued)

Functional allocation of expenses – The costs of providing the various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The Organization does not incur any direct fundraising expenses.

Recent accounting pronouncements – In August 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Presentation of Financial Statements of Not-For-Profit Entities*. The ASU aims to improve presentation of financial information, ultimately making nonprofit financial reporting statements more informative, transparent and useful to readers. Key qualitative and quantitative requirements covered in the final ASU include net asset classes, return on investment expenses, liquidity and availability of capital resources and presentation of operating cash flows. The guidance is effective for fiscal years beginning after December 15, 2017, and early adoption is permitted. The Organization is in the process of evaluating the impact of adoption on its financial statements.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date, but before the financial statements are available to be issued. The Organization recognizes in the financial statements the effects of all subsequent events that provide additional evidence about conditions that existed at the date of the statement of financial position, including the estimates inherent in the process of preparing the financial statements. The Organization's financial statements do not recognize subsequent events that provide evidence about conditions that did not exist at the date of the statement of financial position, but arose after the statement of financial position date and before the financial statements are available to be issued.

The Organization has evaluated subsequent events through November 30, 2018, which is the date the financial statements were available for issuance. See Notes 3 and 15 for a description of subsequent events.

Reclassifications – Certain amounts in the 2017 financial statements have been reclassified to conform to the 2018 classifications. These reclassifications have no effect on net assets and are not material to the financial statements.

Note 3 – Receivables

Pledges receivable – In March 2017, the Organization received a grant of \$1,651,400 from the Shea Family Charities to support the installation of air conditioning in two Diocesan schools. During the year ended June 30, 2018, \$423,254 of this pledge was collected. The remaining balance of \$1,228,146 as of June 30, 2018, was expected to be collected within 12 months of the fiscal year end. In November 2018, the Organization collected \$1,062,961 of the Shea Family Charities pledge, and wrote-off the remaining balance of \$165,185 as uncollectible.

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Note 3 – Receivables (continued)

Receivables from other related institutions and cemetery sales – Cemetery receivables are receivables for purchases of interment spaces, memorials, and services by patrons on installment accounts with repayment terms generally up to five years. Parish billings are receivables for amounts owed to the Organization by parishes and schools and include items such as diocesan assessments, medical insurance, property insurance, property taxes, clergy support, and parish services. PSA contributions receivable are for amounts owed to the Organization by the Orange Catholic Foundation for the portions of the PSA designated for clergy formation and education and select pastoral ministries. Receivables from other institutions are for amounts owed to the Organization related to expenses incurred on the other's behalf in which the Organization is owed reimbursement. With the exception of cemetery receivables, all receivables are due and collectible within 12 months of the fiscal year end.

Receivables from related institutions and cemetery sales consist of the following as of June 30:

	<u>2018</u>	<u>2017</u>
Cemetery receivables, net of allowance of \$27,919 and \$57,823 as of June 30, 2018 and 2017, respectively	\$ 16,540,472	\$ 11,442,817
Pastoral Services Appeal (PSA) receivable	2,996,217	2,899,968
Parish billings, net of allowance of \$1,353,121 and \$913,123 as of June 30, 2018 and 2017, respectively	1,215,963	1,208,758
Receivables from other institutions	<u>624,481</u>	<u>611,372</u>
 Total receivables from other related institutions and cemetery sales, net	 <u><u>\$ 21,377,133</u></u>	 <u><u>\$ 16,162,915</u></u>

Cemetery receivables as of June 30, 2018 are expected to be collected as follows:

<u>Years ending June 30:</u>	
2019	\$ 6,710,073
2020	3,790,394
2021	2,808,950
2022	2,073,874
2023	1,031,456
Thereafter	<u>153,644</u>
 Total	 16,568,391
 Less: allowance for doubtful accounts	 <u>(27,919)</u>
 Total	 <u><u>\$ 16,540,472</u></u>

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Note 3 – Receivables (continued)

Loans receivable from parishes and schools – The Organization retained certain parish and school loans after the establishment of the Trust in 2011 (see Note 7). During the year ended June 30, 2018, the Organization made 4 new loans to certain parishes and schools, amounting to \$7,664,330. Among those were loans to two parishes amounting to approximately \$6,786,000, that had been loans from the Trust which were refinanced and transferred to the Organization. At June 30, 2018, loan maturities ranged from February 2020 through June 2044. At June 30, 2018 and 2017, the Organization had the following amounts due from various parishes and schools:

	2018	2017
Parish and school loans	\$ 9,310,364	\$ 2,272,000
Less: allowance for doubtful accounts	(392,502)	(1,816,431)
Total loans receivable from parishes and schools, net	\$ 8,917,862	\$ 455,569

Loans receivable from parishes and schools as of June 30, 2018 are expected to be collected as follows:

<u>Years ending June 30:</u>	
2019	\$ 573,312
2020	568,256
2021	1,247,026
2022	611,866
2023	481,344
Thereafter	5,828,560
Total	\$ 9,310,364

As of June 30, 2016, the outstanding balance in loans receivable from parishes and schools included an outstanding loan balance totaling approximately \$13 million due from St. Catherine of Siena School (“St. Catherine”). This balance was fully reserved as of June 30, 2016. In June 2017, St. Catherine and the Organization entered into a settlement agreement whereby the property owned by St. Catherine was transferred to the Organization and the three loans due from St. Catherine were restructured. The loans will continue to accrue interest at a rate of 2 percent and St. Catherine will continue to have the option to repay the outstanding loans and accrued interest in order for the property to be transferred back to St. Catherine. The Organization has the right to sell the property and shall pay to St. Catherine the net proceeds of the sale after deducting the outstanding loan and accrued interest as well as other costs incurred in connection with the sale. Currently, the Organization does not have plans to sell the property. The property transferred to the Organization consists of land and buildings valued at \$16,980,000. During the year ended June 30, 2017, the Organization wrote off the loans due which totaled \$13,113,257 and were fully reserved, and recorded a gain of \$16,980,000.

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Note 3 – Receivables (continued)

Loans receivable from related institutions – The Organization made loans to the Christ Catholic Cathedral Facilities Corporation (CCCFC), a related party, to finance the purchase of the Christ Cathedral property by the CCCFC in 2012 and to the Orange Catholic Foundation (OCF), a related party, to facilitate the capital campaign now under way. The Organization made loans to Catholic Charities of Orange County, a related party, to facilitate the purchase of their owner-occupied property. The Organization made loans to two parishes, to facilitate the purchase of owner-occupied properties. The Organization made a loan to a Diocesan entity to assist them with sustaining their operations. The Organization made a loan to an institution to assist the buyer in a purchase of a parish property sold by the Organization.

In July 2017, the loan issued to CCCFC to finance the purchase of the Christ Cathedral property by the CCCFC in 2012 was extinguished due to the refinancing of the U.S. Bank debt (Note 8). In September 2018, prior to the loan maturity date, OCF discharged its outstanding debt obligation to the Organization.

At June 30, 2018 and 2017, the Organization had the following amounts due from related institutions:

	<u>2018</u>	<u>2017</u>
Christ Catholic Cathedral Facilities Corporation loan	\$ -	\$ 55,440,985
Orange Catholic Foundation capital campaigns	1,010,000	1,030,000
Catholic Charities of Orange County	441,266	518,838
Other parishes and institutions	<u>3,147,390</u>	<u>3,182,099</u>
	4,598,656	60,171,922
Less: allowance for doubtful accounts	<u>(310,009)</u>	<u>(144,812)</u>
Total loans receivable from related institutions, net	<u>\$ 4,288,647</u>	<u>\$ 60,027,110</u>

Loans receivable from related institutions as of June 30, 2018 are expected to be collected as follows:

<u>Years ending June 30:</u>	
2019	\$ 1,204,343
2020	194,427
2021	197,513
2022	200,692
2023	195,735
Thereafter	<u>2,605,946</u>
Total	<u>\$ 4,598,656</u>

**The Administrative Office of
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Note 4 – Fair Value Measurements

The following table summarizes financial assets measured at fair value on a recurring basis as of June 30, 2018:

	Fair Value Measurements at June 30, 2018				
	Level 1	Level 2	Level 3	Net Asset Value or Equivalent	Total
Fair value assets:					
Investments:					
Cash and cash equivalents	\$ 30,028,088	\$ -	\$ -	\$ -	\$ 30,028,088
Fixed-income obligations:					
Corporate	-	10,525,592	-	-	10,525,592
Foreign	-	4,599,532	-	-	4,599,532
U.S. government	-	7,664,804	-	-	7,664,804
Common stocks and equities:					
Domestic	79,782,251	-	-	-	79,782,251
International	20,604,544	-	-	-	20,604,544
Mutual funds:					
Domestic	49,849,139	-	-	-	49,849,139
International	45,826,145	-	-	-	45,826,145
Alternative investments:					
Common stocks and equities:					
International	-	-	-	13,560,653	13,560,653
Commingled trust	-	-	-	6,919,394	6,919,394
Hedge funds:					
Fund of funds	-	-	-	24,313	24,313
Credit/event-driven	-	-	-	3,697,423	3,697,423
Private equity:					
Secondaries	-	-	-	231,604	231,604
Buyouts	-	-	-	7,243,834	7,243,834
Mezzanine	-	-	-	148,645	148,645
Distressed	-	-	-	149,139	149,139
Fund of funds	-	-	-	1,374,547	1,374,547
Total fair value investments	<u>226,090,167</u>	<u>22,789,928</u>	<u>-</u>	<u>33,349,552</u>	<u>282,229,647</u>
Total fair value assets	<u>\$ 226,090,167</u>	<u>\$ 22,789,928</u>	<u>\$ -</u>	<u>\$ 33,349,552</u>	<u>\$ 282,229,647</u>

There are no liabilities measured at fair value on a recurring basis as of June 30, 2018.

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Note 4 – Fair Value Measurements (continued)

The following table summarizes financial assets and liabilities measured at fair value on a recurring basis as of June 30, 2017:

	Fair Value Measurements at June 30, 2017				
	Level 1	Level 2	Level 3	Net Asset Value or Equivalent	Total
Fair value assets:					
Investments:					
Cash and cash equivalents	\$ 5,514,470	\$ -	\$ -	\$ -	\$ 5,514,470
Fixed-income obligations:					
Corporate	-	20,806,224	-	-	20,806,224
Foreign	-	6,212,221	-	-	6,212,221
U.S. government	-	13,497,911	-	-	13,497,911
Common stocks and equities:					
Domestic	89,860,263	-	-	-	89,860,263
International	19,630,508	-	-	-	19,630,508
Mutual funds:					
Domestic	38,309,816	-	-	-	38,309,816
International	45,342,569	-	-	-	45,342,569
Alternative investments:					
Common stocks and equities:					
International	-	-	-	13,076,774	13,076,774
Commingled trust	-	-	-	6,821,505	6,821,505
Hedge funds:					
Fund of funds	-	-	-	8,782,115	8,782,115
Credit/event-driven	-	-	-	3,568,732	3,568,732
Private equity:					
Secondaries	-	-	-	274,742	274,742
Buyouts	-	-	-	7,895,544	7,895,544
Mezzanine	-	-	-	281,291	281,291
Distressed	-	-	-	184,338	184,338
Fund of funds	-	-	-	1,537,948	1,537,948
Total fair value investments	198,657,626	40,516,356	-	42,422,989	281,596,971
Total fair value assets	\$ 198,657,626	\$ 40,516,356	\$ -	\$ 42,422,989	\$ 281,596,971
Fair value liabilities					
Swap liability (Note 7)	\$ -	\$ 30,716	\$ -	\$ -	\$ 30,716
Total fair value liabilities	\$ -	\$ 30,716	\$ -	\$ -	\$ 30,716

At June 30, 2017, approximately \$7,800,000 of alternative investments were in the process of being redeemed from two funds. These funds are included in the balances above for hedge funds.

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Note 4 – Fair Value Measurements (continued)

Valuation policy – The Chief Financial Officer, as authorized by the Organization’s Investment Committee, determines the fair value measurement policies and procedures in consultation with the Organization’s investment advisor, Canterbury Consulting. These policies and procedures are reassessed at least annually to determine if the current valuation techniques are still appropriate. At that time, the unobservable inputs used in the fair value measurements are evaluated and adjusted as necessary based on current market conditions and other third-party information.

While the Organization believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated, and these differences could be material to the financial statements.

The following table represents the liquidity and redemption restrictions for the alternative investments valued at NAV or its equivalent as of June 30, 2018:

	Fair Value	Redemption Frequency	Redemption Notice Period	Other Restrictions	Investment Strategy	Unfunded Capital
Alternative investments:						
Common stocks and equities:						
International	\$ 13,560,653	Monthly	10 days	None	[1]	\$ -
Commingled trust	6,919,394	Quarterly	60 days	None	[2]	-
Hedge funds:						
Fund of funds	24,313	Quarterly	90 days	Gate up to 25%	[3a]	-
Credit/event-driven	3,697,423	Quarterly	65 days (180 days for full redemption)	25% per quarter w/ 65 days notice; 5% fee for full redemption	[3b]	-
Private equity:						
Secondaries	231,604	1 yr lock up	N/A	None	[4a]	436,000
Buyouts	7,243,834	1 to 6 yr lock up	N/A	Possible 3 yr extension	[4b]	840,446
Mezzanine	148,645	1 yr lock up	N/A	Possible 2 yr extension	[4c]	404,250
Distressed	149,139	1 yr lock up	N/A	Possible 5 yr extension	[4d]	100,000
Fund of funds	<u>1,374,547</u>	6 yr lock up	N/A	None	[4e]	<u>582,000</u>
	<u>\$ 33,349,552</u>					<u>\$ 2,362,696</u>

**The Administrative Office of
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Note 4 – Fair Value Measurements (continued)

- [1] The international equity shown in the alternative investments section is classified as such because of the vehicle it is invested in, not the underlying holdings. The holdings in these funds are common stock and equity securities, but the partnerships they are invested in do not offer daily liquidity.
- [2] Comingled trust funds look to add un-correlated returns with the other fixed income funds as well as additional yield. These funds are invested primarily in high yield debt and private loans.
- [3] Hedge funds are an asset class that looks to provide downside protection for a portfolio as they try to achieve superior risk adjusted returns. Hedge funds are generally established as a limited partnership where the investors are buying a share of the partnership. Hedge funds can generally use leverage and have the ability to hold both long and short positions. Hedge funds are included in the portfolio with the goal of stabilizing returns in the securities and fixed income investments.
- [3a] Fund of funds is a subset of the hedge fund category. A fund of funds is a hedge fund that invests in other hedge funds. This allows for further diversification as the investor now has an indirect investment in a number of individual hedge funds. The objective of the funds is to achieve capital appreciation through investments in portfolios of domestic and international equities as well as distressed and arbitrage securities.
- [3b] Credit/event-driven hedge funds are similar to long/short equity hedge funds except they are not focused solely on equity securities, but rather have the ability to invest in credit and other fixed-income securities. The focus of event-driven strategies is to find “special situations” in the market and purchase securities to attempt to take advantage of those situations (distressed companies, takeovers, mergers, etc.).
- [4] Private equity funds are buying companies that are not publicly traded on a stock exchange. Private equity funds are usually a long-term investment and the strategies are generally illiquid.
- [4a] Secondary private equity funds look to buy and sell pre-existing investor commitments to other private equity and alternative investment funds. The negotiations are privately negotiated as there is not an active market for secondary interest in private equity funds. The fund the Organization is invested in invests directly or indirectly with other entities in privately negotiated investments in the secondary market.
- [4b] The private equity buyout funds look to purchase private operating companies. These funds invest directly or indirectly in private companies doing business domestically and globally. These investments do not imply minority or majority ownership in the acquired company.

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Note 4 – Fair Value Measurements (continued)

[4c] Mezzanine strategy funds look to purchase mezzanine debt. Mezzanine debt is when a hybrid debt issue is subordinated to another debt issue from the same issuer. Mezzanine debt usually has embedded equity instruments attached.

[4d] Distressed private equity funds look to take positions (both equity and debt) in companies with distressed balance sheets. These can range from a complete takeover to a cash infusion to gain equity ownership until the company is at a more stable state.

[4e] Fund of funds is a subset of the portfolio's investment in hedge funds and included as a means of stabilizing return. These funds invest in distressed companies, real estate and real-estate related debt, in the US and globally.

The following schedule summarizes investment income (loss) recognized in the statements of activities for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Net realized gains	\$ 21,857,358	\$ 6,546,371
Net unrealized (losses) gains	(7,126,351)	18,374,989
Interest and dividends	5,807,330	5,096,792
Other, net	<u>355,380</u>	<u>1,629,206</u>
Total	<u>\$ 20,893,717</u>	<u>\$ 31,647,358</u>

Note 5 – Cemetery Inventory

At June 30, 2018 and 2017, inventory consists of cemetery property available for sale, under development, and land for future development:

	<u>2018</u>	<u>2017</u>
Internment	\$ 14,081,414	\$ 15,670,908
Work-in-process	2,192,124	1,275,783
Undeveloped land	<u>679,270</u>	<u>679,270</u>
Total cemetery inventory	<u>\$ 16,952,808</u>	<u>\$ 17,625,961</u>

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Note 5 – Cemetery Inventory (continued)

At the time finished cemetery inventory (i.e., graves, lawn crypts, mausoleum crypts, cremation niches) is sold, cemetery inventory is relieved. No cost of sales or inventory reduction is recorded upon the sale of pre-developed inventory. When pre-developed inventory is completed and the total development cost is known and allocated over the available inventory, the appropriate cost of sales and inventory transactions are recognized. On July 1, 2016, the Organization purchased all unsold Cathedral Memorial Gardens inventory from CCCFC in exchange for a note payable amounting to \$1,278,334 (Note 8).

Note 6 – Property, Equipment, and Improvements

A summary of property, equipment, and improvements at June 30, 2018 and 2017 is as follows:

	<u>2018</u>	<u>2017</u>
Land, buildings, and improvements	\$ 51,062,494	\$ 50,144,971
Furniture, fixtures, and equipment	7,681,744	6,158,151
Construction in progress	<u>245,893</u>	<u>-</u>
Total property, equipment, and improvements	58,990,131	56,303,122
Less: accumulated depreciation and amortization	<u>(16,344,268)</u>	<u>(13,787,709)</u>
Total property, equipment, and improvements, net	<u>\$ 42,645,863</u>	<u>\$ 42,515,413</u>

In June 2017, the Organization obtained rights to the land and building of St. Catherine of Siena valued at \$7,400,000 and \$9,580,000, respectively (Note 3).

Note 7 – Investments Held in Trust for Others

The Trust was established during 2011 to facilitate the operation and administration of the deposit and loan activities on behalf of the parishes and schools. Included in the Organization's investment pool are monies from the Trust held by the Organization for the purpose of providing investment management and technical assistance. A liability is recorded at the estimated fair value of assets deposited with the Organization by the Trust. Investment funds held in trust for others at June 30, 2018 and 2017, were \$134,953,427 and \$109,571,008, respectively.

**The Administrative Office of
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Note 8 – Notes Payable

As of June 30, 2017, the Organization had two notes payable with U.S. Bank, in the amounts of \$20,400,000 and \$35,000,000. The \$20,400,000 note accrued interest at an annual rate equal to 0.55 percent plus one-month LIBOR. The \$35,000,000 note accrued interest at an annual rate equal to 0.75 percent plus one-month LIBOR. Interest expense on the debt totaled \$791,653 for the year ended June 30, 2017. Accrued interest as of June 30, 2017, was \$85,768, and was included in the notes payable balance.

As a strategy for maintaining acceptable levels of exposure to the risk of changes in future cash flows due to interest rate fluctuations, the Organization entered into an interest-rate swap agreement for the \$35,000,000 loan noted above. As of June 30, 2017, the fair value of the interest-rate swap agreement was a liability of \$30,716, and was reflected in other liabilities in the statement of financial position as of June 30, 2017. Fair value was determined using a variable rate of 1.24 percent. Interest expense on the swap agreement totaled \$187,955 for the year ended June 30, 2017. Due to the debt refinance with Farmers and Merchants Bank of Long Beach the interest rate swap was settled for \$4,750 in July 2017.

In July 2017, related party CCCFC executed a promissory note with Farmers and Merchants Bank of Long Beach. CCCFC obtained a loan for \$56,000,000 with an interest rate of 2.65%. The note matures on July 1, 2027. The note is secured by the deed of trust of the premises. The proceeds from this loan were used to retire the U.S. Bank debt amounting to \$55,400,000. Effective July 1, 2017, the Organization is no longer an obligor on the U.S. Bank loans, and the offsetting receivable due from CCCFC (Note 3) was removed. The Organization now leases its office space from CCCFC and monthly rental payments are consistent with CCCFC's debt service payments for the Farmers and Merchants Bank loan (Note 18).

In July 2016, the Organization purchased from CCCFC all unsold Cathedral Memorial Gardens inventory on the cathedral campus grounds. The purchase was financed by a loan payable to CCCFC totaling \$1,278,334. The loan has an interest rate of 3 percent and a maturity date of June 1, 2036. As of June 30, 2018 and 2017, the amount of principle outstanding was \$1,179,214 and \$1,227,898, respectively.

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Note 9 – Priests’ Pension and Post-Retirement Benefits

The Organization sponsors a defined-benefit pension plan for all priests who are incardinated or ordained in the Diocese of Orange. Although this defined-benefit pension plan is exempt from the funding requirements of ERISA, it has been the policy of the Organization to make contributions annually based on actuarial principles. The Organization also sponsors a post-retirement medical plan for retired priests. The post-retirement medical plan pays medical costs not covered by Parts A and B of Medicare. The post-retirement medical plan also reimburses a priest’s contribution for Part B expenses. The post-retirement plan has no trust fund assets.

The annual measurement date is June 30 for the pension benefits and other post-retirement benefits. The following tables provide further information about the Organization’s pension and post-retirement benefit plans:

	<u>Pension Benefits</u>
Projected benefit obligation at June 30, 2016	\$ 28,290,000
Gain due to July 1 re-measurement	(892,000)
Increase (decrease) due to:	
Service cost	1,013,000
Interest cost	978,000
Actual benefit payments	(739,000)
Administrative expenses	(55,000)
Gain during the year due to change in assumptions	<u>(1,868,000)</u>
Projected benefit obligation at June 30, 2017	26,727,000
Gain due to July 1 re-measurement	(976,000)
Increase (decrease) due to:	
Service cost	928,000
Interest cost	976,000
Actual benefit payments	(778,000)
Administrative expenses	(50,000)
Gain during the year due to change in assumptions	(3,419,000)
Additional liability due to plan amendment	<u>485,000</u>
Projected benefit obligation at June 30, 2018	<u><u>\$ 23,893,000</u></u>

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Note 9 – Priests’ Pension and Post-Retirement Benefits (continued)

The funded status of the pension and post-retirement plans and the net amount recognized in the Organization’s statements of financial position at June 30 were as follows:

	Pension Benefits		Post-Retirement Benefits	
	2018	2017	2018	2017
Projected benefit obligation	\$ 23,893,000	\$ 26,727,000	\$ 18,060,000	\$ 16,326,000
Plan assets at fair value	(13,239,000)	(12,313,000)	-	-
Under-funded status	<u>\$ 10,654,000</u>	<u>\$ 14,414,000</u>	<u>\$ 18,060,000</u>	<u>\$ 16,326,000</u>

Amounts recognized in the statements of financial position at June 30 consist of:

	2018	2017
Total under-funded status	\$ 28,714,000	\$ 30,740,000
Supplemental liability	310,000	310,000
Total priests' pension/post-retirement benefits accrual	<u>\$ 29,024,000</u>	<u>\$ 31,050,000</u>

The accumulated benefit obligation for the defined-benefit pension plan was \$18,056,000 and \$18,340,000 at June 30, 2018 and 2017, respectively.

The pension and post-retirement plans’ pension expense, pension benefits paid, and employer contributions for the years ended June 30, 2018 and 2017, are as follows:

	Pension Benefits		Post-Retirement Benefits	
	2018	2017	2018	2017
Net pension expense	<u>\$ 1,312,000</u>	<u>\$ 1,687,000</u>	<u>\$ -</u>	<u>\$ -</u>
Pension/post-retirement benefits paid	<u>\$ 788,000</u>	<u>\$ 739,000</u>	<u>\$ 375,000</u>	<u>\$ 342,000</u>
Employer contributions	<u>\$ 829,000</u>	<u>\$ 720,000</u>	<u>\$ 375,000</u>	<u>\$ 342,000</u>
Net post-retirement expense	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,499,000</u>	<u>\$ 1,759,000</u>

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Note 9 – Priests’ Pension and Post-Retirement Benefits (continued)

Other changes in plan assets and benefit obligations recognized in unrestricted net assets at June 30 are as follows:

	Pension Benefits		Post-Retirement Benefits	
	2018	2017	2018	2017
Net (gain) loss	\$ (4,551,000)	\$ (3,449,000)	\$ 796,000	\$ (687,000)
Amortization of prior service cost	485,000	(177,000)	-	-
Amortization of gain	(177,000)	(205,000)	(186,000)	(374,000)
Total	<u>\$ (4,243,000)</u>	<u>\$ (3,831,000)</u>	<u>\$ 610,000</u>	<u>\$ (1,061,000)</u>

Amounts recognized as unrestricted net assets in the statements of activities for the years ended June 30, 2018 and 2017, are as follows:

	Pension Benefits	Post- Retirement Benefits
Amount recognized as of June 30, 2017	\$ 5,907,000	\$ 5,211,000
Total recognized during the year	<u>(4,243,000)</u>	<u>610,000</u>
Amount recognized as of June 30, 2018	<u>\$ 1,664,000</u>	<u>\$ 5,821,000</u>

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Note 9 – Priests’ Pension and Post-Retirement Benefits (continued)

Weighted-average assumptions used in the accounting for the Organization’s pension and post-retirement benefit plans were:

	Pension Benefits		Post-Retirement Benefits	
	2018	2017	2018	2017
Weighted-average assumptions used to determine benefit obligations at June 30:				
Discount rate	4.2%	3.9%	4.2%	3.9%
Assumed future annual benefit increases	2.0%	2.5%	-	-
Health care cost trend	-	-	7.3%	5.0%
Other post-employment benefits trend rate	-	-	3.5%	3.5%
Weighted-average assumptions used to determine net periodic benefit cost for the years ended June 30:				
Discount rate	3.9%	3.6%	3.9%	3.8%
Expected long-term rate of return on assets	6.3%	6.3%	-	-
Assumed future annual benefit increases	2.0%	2.5%	-	-
Health care cost trend	-	-	7.3%	5.0%
Other post-employment benefits trend rate	-	-	3.5%	3.5%

Expected long-term asset return assumption – The Organization employs a methodical process to determine the estimates of expected long-term rate of return on assets. These estimates are primarily driven by actual historical asset-class returns and advice from external actuarial consulting firms while incorporating specific asset-class risk factors.

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Note 9 – Priests’ Pension and Post-Retirement Benefits (continued)

Plan asset investment strategy and allocation – The asset allocation for the pension plan as of June 30, 2018 and 2017, and the target allocation, by asset category are:

Class:	Diocesan- Approved Asset Allocation	Policy Benchmark Asset Allocation	Actual Percentage of Plan Assets	
	Range		2018	2017
Equities	45 to 75%	65%	65%	64%
Fixed Income	25 to 55%	35%	35%	36%
Cash	0 to 95%	0%	0%	0%

Investment policy – The investment policy of the Organization for all assets held for investment is designed to meet the Organization’s primary goal of capital preservation combined with the objective of achieving reasonable income and capital growth, while showing a preference toward those companies which have manifested a particular consideration for the social good.

Investment hierarchy – The plan assets are measured at fair value on a recurring basis and are classified as Level 1 pursuant to the valuation hierarchy.

The plan assets were classified as follows as of June 30:

	2018	2017
Plan Assets:		
Investments:		
Domestic common stock	\$ 5,000	\$ 1,224,000
Mutual funds:		
Equities:		
Domestic	5,968,000	4,240,000
International	2,618,000	2,465,000
Fixed income:		
Domestic	4,648,000	4,384,000
Total	<u>\$ 13,239,000</u>	<u>\$ 12,313,000</u>

The Organization expects to contribute \$1,067,000 to its pension plan and \$0 to its other post-retirement benefit plan during the year ended June 30, 2019.

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Note 9 – Priests’ Pension and Post-Retirement Benefits (continued)

Estimated future benefit payments – The following benefit payments which reflect expected future service, as appropriate, are expected to be paid:

	Pension Benefits	Post-Retirement Benefits
<u>Years ending June 30:</u>		
2019	\$ 938,000	\$ 462,000
2020	1,044,000	523,000
2021	1,054,000	546,000
2022	1,131,000	611,000
2023	1,151,000	633,000
2024-2028	6,657,000	3,859,000
Total	\$ 11,975,000	\$ 6,634,000

Note 10 – Net Assets

As of June 30, 2018 and 2017, net assets were classified as follows:

	2018	2017
Unrestricted, undesignated net assets	\$ 41,694,647	\$ 32,002,287
Cemetery care	47,122,964	40,699,864
Plant	39,869,136	39,869,136
Insurance reserves	18,377,133	18,377,133
Investment returns reserve	10,200,000	10,200,000
Cathedral renovation	3,924,525	20,000,000
Other	2,696,289	4,329,147
Priest retirement and relief	249,120	249,120
Catholic education	979,282	743,490
Bishop discretionary funds	102,222	120,973
Seminarians	100,085	100,085
Earthquake retrofit	100,024	1,311,547
Debt reduction reserves	-	18,388,559
Total unrestricted, designated net assets	123,720,780	154,389,054
Total unrestricted net assets	\$ 165,415,427	\$ 186,391,341

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Note 10 – Net Assets (continued)

Temporarily restricted net assets were available for the following purposes:

	<u>2018</u>	<u>2017</u>
Catholic education grants and assistance	\$ 13,435,211	\$ 13,389,998
Construction projects	1,774,892	1,651,400
Other	843,842	752,348
Parishes in need	794,408	824,383
Pastoral Services Appeal	680,116	68,721
Endowment appreciation and income, not appropriated	<u>303,946</u>	<u>369,659</u>
Total	<u>\$ 17,832,415</u>	<u>\$ 17,056,509</u>

Temporarily restricted net assets were released for the following purposes:

	<u>2018</u>	<u>2017</u>
Pastoral Services Appeal	\$ 2,384,822	\$ 4,289,414
Catholic education grants and assistance	1,493,000	1,493,000
Other	375,028	335,806
Parishes in need	198,784	188,328
Endowment appreciation and income, appropriated	90,000	115,000
Construction projects	<u>-</u>	<u>2,974,753</u>
Total	<u>\$ 4,541,634</u>	<u>\$ 9,396,301</u>

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Note 10 – Net Assets (continued)

Permanently restricted net assets were restricted to investment in perpetuity, the income from which was expendable to support:

	2018	2017
Bishop McFarland Trust	\$ 2,670,497	\$ 2,670,497
Seminarian endowment	204,989	204,989
Total	\$ 2,875,486	\$ 2,875,486

The Bishop McFarland Trust is restricted for future scholarships for students pursuing Catholic, faith-based work. The seminarian endowment was established to support the educational costs of seminarians within the Roman Catholic Diocese of Orange.

Note 11 – Endowment Funds

Interpretation of relevant law – The Organization has interpreted the California Uniform Prudent Management of Institutional Funds Act (CUPMIFA) as requiring the preservation of the fair value of the original gift as of the date of the donor restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as permanently restricted net assets: (a) the original value of the gifts donated to the permanent endowment; (b) the original value of the subsequent gifts to the permanent endowment; and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard prudence prescribed by CUPMIFA. In accordance with CUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- a. The duration and preservation of the fund
- b. The purposes of the Organization and the donor-restricted endowment fund
- c. General economic conditions
- d. The possible effect of inflation and deflation
- e. The expected total return from income and the appreciation of investments
- f. Other resources of the Organization
- g. The investment policies of the Organization

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Note 11 – Endowment Funds (continued)

Spending policy and how the investment objectives relate to the spending policy – The endowment fund has a spending policy of appropriating net income earned on the investment of these funds for distribution according to the instructions of the donor at the time the gift is made. The original value of the gifts donated to the permanent endowment is to be classified as permanently restricted and any earnings are classified as temporarily restricted until appropriated for expenditure.

Specific to a bequest contribution, an annual spending percentage was established initially at five percent based on the average value of the endowment assets for the year.

Investment policy – The endowment funds are invested as instructed by donors or with the investment policies of the Organization and are designed to meet the Organization’s primary goal of capital preservation combined with the objective of achieving reasonable income and capital growth while showing a preference toward those companies which have manifested a particular consideration for the social good.

The classification of the endowment assets was as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Endowment Net Assets</u>
Endowment net assets, July 1, 2016	\$ -	\$ 252,356	\$ 2,875,486	\$ 3,127,842
Investment income	-	232,303	-	232,303
Amounts appropriated for expenditure	-	<u>(115,000)</u>	-	<u>(115,000)</u>
Endowment net assets, June 30, 2017	-	369,659	2,875,486	3,245,145
Investment income	-	24,287	-	24,287
Amounts appropriated for expenditure	-	<u>(90,000)</u>	-	<u>(90,000)</u>
Endowment net assets, June 30, 2018	<u>\$ -</u>	<u>\$ 303,946</u>	<u>\$ 2,875,486</u>	<u>\$ 3,179,432</u>

There are no board designated endowment funds as of June 30, 2018 and 2017.

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Note 12 – Related-Party Transactions

In addition to related-party transactions mentioned throughout, the following related party-transactions exist:

Pastoral Services Appeal (PSA) – The PSA is administered by the OCF, a related party. The OCF is given the responsibility to conduct and administer the PSA including provision for the funding of the OCF operations and for a change in the application of funds raised under the PSA. All amounts collected under this program are restricted to be used exclusively for the programs and services outlined in the PSA campaign materials. The Bishop of Orange is a member of the OCF Board, but he does not control the OCF Board, OCF activities, or OCF grants and program allocations that are funded by the PSA. The OCF and the Organization share a common purpose to serve the Roman Catholic Church in Orange County. During the years ended June 30, 2018 and 2017, the OCF collected \$2,996,217 and \$2,899,968, respectively, on behalf of the Organization under this program. These amounts are included in contributions, grants, and bequests in the accompanying statements of activities.

The OCF may from time to time enter into fundraising campaigns that do not directly benefit the Organization. In those cases, the Organization will only report revenue from the OCF upon the OCF making a direct grant to the Organization.

Note 13 – Grants, Donations, and Scholarship Expenses

The Organization makes grants, donations, and scholarships to the parishes and schools of the Roman Catholic Bishop of Orange and to various other organizations. During June 2018, the Organization granted \$18,388,559 to CCCFC to pay down campus acquisition debt (Note 8). During the year ended June 30, 2018, the Organization granted \$16,075,476 to CCCC to pay for cathedral renovations.

A summary of these grants and donations are as follows:

	<u>2018</u>	<u>2017</u>
Grants to CCCFC	\$ 18,388,559	\$ -
Grants to CCCC	16,075,476	-
Other grants, donations, and scholarships	1,965,211	327,757
Assistance grants to parishes and schools	1,848,004	4,245,989
Shea Family Charities HVAC Project	1,791,796	3,791,806
Earthquake retrofit grants	1,211,522	5,631,866
High school scholarships	750,000	742,000
Parishes and schools in need	249,206	188,156
Wellness Program	<u>178,642</u>	<u>144,976</u>
Total	<u>\$ 42,458,416</u>	<u>\$ 15,072,550</u>

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Note 14 – Self Insurance Funds

The Organization and various institutions of the Roman Catholic Bishop of Orange are partially self-insured with respect to their general liability coverage through their participation with other dioceses in several western states in a risk retention group, which is incorporated in Vermont. The Organization is also insured up to shared limits with respect to its earthquake insurance coverage through its participation with other dioceses in the California Interdiocesan Earthquake Insurance pooling agreement. Reserves for the losses at the parishes and schools are maintained at the Organization within the investment pool for all centralized risk management programs. The Organization believes that amounts designated by the Bishop as insurance reserves within unrestricted net assets are adequate and there are sufficient assets available to cover the non-designated net assets. There was \$18,377,133 designated at June 30, 2018 and 2017. As of June 30, 2018 and 2017, the Organization is not aware of any specific claims in excess of the combined self-insurance and insured limits.

Note 15 – Litigation and Legal Expenses

As of June 30, 2018, the Organization recorded a legal contingency for a probable and reasonably estimated settlement. In October 2018, the settlement agreement was signed and the Organization adjusted the legal contingency to reflect the actual settlement cost of \$3,000,000. This amount is included in accounts payable and accrued expenses on the statement of financial position. The Organization is also involved in various lawsuits relating to other matters and claims of alleged sexual misconduct. Of the remaining misconduct cases, the majority are past the statute of limitations and lower courts have upheld the Organization's position.

The Organization has established protocols consistent with the norms of the U.S. Conference of Catholic Bishops, which provide safeguards and policies surrounding any future allegations.

Note 16 – Employee Benefit Plan

The Organization has a defined-contribution plan (the "Plan") under Section 403(b) of the Internal Revenue Code, covering all employees of the Organization who are at least 18 years of age. The Organization does not match participants' contributions. Participants are, at all times, fully vested in their contributions. The Organization retains the right, by action of the Bishop of Orange, to amend, modify, or terminate the Plan.

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Note 17 – Lay Employees’ Pension Plan

The Organization has a non-contributory money purchase pension plan (defined contribution) for all lay employees (including parishes, schools, and cemeteries) who have completed one year of service and are at least 18 years of age. Annual contributions to the plan were 5.0 percent of the compensation of all eligible lay employees in 2018 and 2017. Benefits vest based on periods of service and are measured in 12-month increments starting with date of hire. Vesting begins after one period of service is completed and benefits are fully vested after five periods of service. Total contributions for the Organization’s employees for the years ended June 30, 2018 and 2017, were \$544,122 and \$634,089, respectively.

Note 18– Lease Commitments

In September 2013, the Organization relocated its offices to the campus of Christ Catholic Cathedral (the “Campus”). Christ Catholic Cathedral Facilities Corporation (CCCFC) holds title to the Campus. It leases the entire property to Christ Catholic Cathedral Corporation (CCCC) under a master lease agreement. In 2013, the Organization entered into a 10-year lease with the CCCC for administrative offices within the Pastoral Center located on the Campus. Effective July 1, 2016, the Organization and related parties CCCFC and CCCC entered into an agreement whereby CCCC assigned all of its rights to lease the Campus property from CCCFC to the Organization. Under the terms of the amended lease, the Organization is required to pay CCCFC the monthly debt service amount plus an additional \$9,073. The monthly debt service amounts range from approximately \$45,000 to \$130,000 per month, and the amended lease term expires April 30, 2032. The Organization records rent on a straight-line basis. Deferred rent totaling approximately \$461,000 was recorded as of June 30, 2018, and is included in accounts payable and accrued expenses on the statement of financial position. The deferred rent balance as of June 30, 2017, was considered to be immaterial to the financial statements.

The Organization also leases office space located in Orange, California under an operating lease expiring October 31, 2020, with one three-year option to renew. Monthly lease payments range from \$2,272 to \$2,411.

Total lease payments under the operating leases during the years ended June 30, 2018 and 2017, were \$1,417,579 and \$1,111,091, respectively.

The approximate annual minimum lease payments under the operating leases as of June 30, 2018, are:

<u>Years ending June 30:</u>	
2019	\$ 614,833
2020	609,385
2021	1,116,908
2022	1,155,962
2023	1,155,962
Thereafter	<u>10,960,733</u>
Total	<u>\$ 15,613,783</u>