Report of Independent Auditors and Financial Statements for

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

June 30, 2016 and 2015

MOSS-ADAMS LLP

Certified Public Accountants | Business Consultants

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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 Corporation 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, 2016 and 2015, 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.

MOSS ADAMS LLP

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, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Moss Adams LLP

San Diego, California
December 14, 2016

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

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	June 30, 2016	June 30, 2015
ASSETS		
Cash and Cash Equivalents	$ 39,165,560	$ 26,353,093
Receivables		
Pledge receivable (Note 2)	3,100,000	-
Receivables from other related institutions and cemetery sales, net (Note 2)	15,329,748	15,514,972
Loans receivable from parishes and schools, net (Note 2)	25,104	1,151,481
Loans receivable from related institutions, net (Note 2)	58,898,827	59,118,321
Loans receivable for the repayment of bonds (Note 2)	20,319,593	20,871,593
Beneficial interest in charitable remainder trusts (Note 2)	105,069	109,651
Investments		
Long-term investments (Note 3)	125,075,069	131,066,070
Permanently restricted endowment (Note 3)	2,670,497	2,670,497
Investments held in trust for others (Notes 3 and 7)	122,084,560	119,250,746
Cemetery Inventory (Note 5)	16,339,078	17,092,461
Property, Equipment, and Improvements, net (Note 6)	26,258,135	27,862,216
Assets Held for Sale (Note 6)	-	1,976,845
Other Assets	853,464	666,491
Total assets	$ 430,224,704	$ 423,704,437
LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable and accrued expenses	$ 5,178,129	$ 6,330,015
Parish and other deposits	4,415,849	4,598,166
Investments held in trust for others (Note 7)	122,084,560	119,250,746
Deferred amounts	23,878,196	22,209,162
Notes payable (Note 8)	55,477,120	55,470,645
Bonds payable (Note 9)	20,319,593	20,871,593
Priests' pension/post-retirement benefits accrual (Note 10)	33,559,000	27,950,000
Other liabilities	599,855	1,180,746
Total liabilities	265,512,302	257,861,073
Net Assets (Note 11)		
Unrestricted		
Undesignated	(7,331,227)	4,189,331
Designated for specific purposes	150,132,951	138,699,604
Total unrestricted	142,801,724	142,888,935
Temporarily restricted	19,035,192	20,088,791
Permanently restricted (Note 12)	2,875,486	2,865,638
Total net assets	164,712,402	165,843,364
Total liabilities and net assets	$ 430,224,704	$ 423,704,437

See accompanying notes.

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

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions, grants, and bequests	$ 955,423	$ 8,208,482	$ 9,848	$ 9,173,753
Diocesan assessments	7,827,012	-	-	7,827,012
Diocesan programs	5,165,936	-	-	5,165,936
Cemetery operations	12,246,845	-	-	12,246,845
Investment loss (Note 3)	(2,867,796)	-	-	(2,867,796)
Insurance programs	32,747,160	-	-	32,747,160
Net assets released from restrictions (Note 11)	5,923,661	(5,923,661)	-	-
Total revenue and support	61,998,241	2,284,821	9,848	64,292,910
EXPENSES				
Program services:				
Diocesan pastoral ministries	8,721,388	-	-	8,721,388
Clergy support programs	2,950,439	-	-	2,950,439
Investment programs	5,163,887	-	-	5,163,887
Cemetery operations	8,532,013	-	-	8,532,013
Insurance programs	28,334,754	-	-	28,334,754
Grants, donations, and scholarships (Note 14)	9,403,714	-	-	9,403,714
Support services:				
Diocesan administration	13,731,832	-	-	13,731,832
Total expenses	76,838,027	-	-	76,838,027
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	(14,839,786)	2,284,821	9,848	(12,545,117)
Other comprehensive pension loss	(5,609,000)	-	-	(5,609,000)
Transfers of net assets (Note 11)	3,338,420	(3,338,420)	-	-
Gain on sale of Marywood Pastoral Center property	17,023,155	-	-	17,023,155
CHANGE IN NET ASSETS	(87,211)	(1,053,599)	9,848	(1,130,962)
NET ASSETS				
Beginning of year	142,888,935	20,088,791	2,865,638	165,843,364
End of year	$ 142,801,724	$ 19,035,192	$ 2,875,486	$ 164,712,402

See accompanying notes.

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

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND SUPPORT				
Contributions, grants, and bequests	$ 251,073	$ 4,875,611	$ 200	$ 5,126,884
Diocesan assessments	7,839,369	-	-	7,839,369
Diocesan programs	5,364,624	-	-	5,364,624
Cemetery operations	12,520,996	-	-	12,520,996
Investment income (Note 3)	10,492,650	-	-	10,492,650
Insurance programs	34,456,512	-	-	34,456,512
Other income	183,681	-	-	183,681
Net assets released from restrictions (Note 11)	1,944,997	(1,944,997)	-	-
Total revenue and support	73,053,902	2,930,614	200	75,984,716
EXPENSES				
Program services				
Diocesan pastoral ministries	7,874,891	-	-	7,874,891
Clergy support programs	1,912,159	-	-	1,912,159
Investment programs	7,074,734	-	-	7,074,734
Cemetery operations	8,312,575	-	-	8,312,575
Insurance programs	25,842,937	-	-	25,842,937
Grants, donations, and scholarships (Note 14)	6,893,202	-	-	6,893,202
Support services				
Diocesan administration	13,417,857	-	-	13,417,857
Total expenses	71,328,355	-	-	71,328,355
CHANGE IN NET ASSETS BEFORE OTHER CHANGES	1,725,547	2,930,614	200	4,656,361
Other comprehensive pension loss	(6,228,000)	-	-	(6,228,000)
CHANGE IN NET ASSETS	(4,502,453)	2,930,614	200	(1,571,639)
NET ASSETS				
Beginning of year	147,391,388	17,158,177	2,865,438	167,415,003
End of year	$ 142,888,935	$ 20,088,791	$ 2,865,638	$ 165,843,364

THE ADMINISTRATIVE OFFICE OF
THE ROMAN CATHOLIC BISHOP OF ORANGE,
A CORPORATION SOLE
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2016 AND 2015

	Years Ended June 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ (1,130,962)	$ (1,571,639)
Adjustments to reconcile change in net assets to net cash from operating activities:		
Change in allowance for doubtful accounts	1,719,239	1,931,984
Change in value of beneficial interest in charitable remainder trust	4,582	6,973
Unrealized loss on investments	9,181,097	4,099,950
Realized gains on sale of investments	(1,031,332)	(8,178,175)
Depreciation	2,090,808	1,966,425
Loss on write-off of loans receivable	-	1,000,000
(Gain) loss on sales and disposal of property	(16,976,052)	22,485
Change in priests' pension and post-retirement benefits accrual	5,609,000	6,228,000
Change in fair value of swap	277,616	(271,208)
Change in operating assets and liabilities:		
Receivables	(4,502,281)	(997,542)
Cemetery inventory	753,383	664,338
Other assets	(186,973)	(68,337)
Accounts payable and accrued expenses	(1,145,411)	1,032,170
Parish and other deposits	(182,317)	2,421,323
Equity of investments held in trust for other	2,833,814	8,327,721
Deferred amounts	1,669,034	1,839,216
Other liabilities	(858,507)	821,016
Net cash (used in) provided by operating activities	(1,875,262)	19,274,700
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment, and improvements	(533,830)	(7,007,388)
Proceeds from sale of property	19,000,000	-
Purchase of investments	(20,727,950)	(37,269,368)
Proceeds from sales of investments	15,735,372	37,556,483
Loans made to parishes, schools and other institutions	-	(1,350,000)
Payments received on loans made to parishes, schools and other institutions	1,214,137	1,251,626
Net cash provided by (used in) investing activities	14,687,729	(6,818,647)
NET CHANGE IN CASH AND CASH EQUIVALENTS	12,812,467	12,456,053
CASH AND CASH EQUIVALENTS		
Beginning of year	26,353,093	13,897,040
End of year	$ 39,165,560	$ 26,353,093

SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

Cash payments for interest	$ 843,073	$ 918,171

SUPPLEMENTAL DISCLOSURES OF NON-CASH INVESTING AND FINANCING ACTIVITIES

Loan payments received	$ 552,000	$ 536,000
Payments made on bonds	$ (552,000)	$ (536,000)

See accompanying notes.

Note 1 – Summary of Significant Accounting Policies and Basis of Presentation

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 ("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 ("RCBO"), 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 Cathedral campus, and manages the operations of the Cathedral campus including strategic planning, development, and marketing. See Note 20.

Christ Catholic Cathedral Facilities Corporation ("CCCFC") holds title to the Christ Cathedral property along with the acquisition indebtedness. It leases the entire property to CCCC under a master lease agreement. Its purpose is to operate, renovate, and sublease the property.

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 ("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.

Note 1 – Summary of Significant Accounting Policies and Basis of Presentation (continued)

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, 2016 or 2015, 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 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.

Note 1 – 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.

Note 1 – 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. Prior to June 2011, when the Roman Catholic Diocese of Orange Revocable Trust (the "Trust") was established, credit was extended based upon evaluation of the borrowing entity's financial condition and other factors. Generally, collateral was 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, 2016 and 2015 was 1.53 percent and 1.63 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.

Loans receivable for the repayment of bonds and bonds payable – The Organization authorized certain debt facilities for the benefit and use of one of its diocesan high schools such that the Organization presents the gross amounts due, as well as a corresponding receivable from the school (see Notes 2 and 9).

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, 2016 and 2015, the total allowance was $15,499,576 and $13,780,337, respectively.

Investments – Investments are recorded at fair value. 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.

Note 1 – 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 2015 to 2016.

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 and mutual funds where a quoted market price is not available. 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.

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 Notes 3 and 12). 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 Notes 3 and 7).

Note 1 – Summary of Significant Accounting Policies and Basis of Presentation (continued)

The Roman Catholic Diocese of Orange Revocable Trust ("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. For both of the years ended June 30, 2016 and 2015, the Organization capitalized assets with a cost or donated value of $1,000 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 property, equipment, and improvements – 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, 2016 and 2015.

Assets held for sale – Assets held for sale are recorded at the lower of the carrying amount or fair value, less cost to sell. Assets classified as "held for sale" are no longer depreciated.

Note 1 – 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 internment 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.

Note 1 – 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.

Subsequent events – Subsequent events are events or transactions that occur after the statement of financial position date, but before the financial statements are 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 December 14, 2016, which is the date the financial statements were available for issuance. See Notes 9 and 20 for a description of subsequent events.

Reclassifications – Certain reclassifications have been made to the 2015 financial statements to conform to the 2016 presentation. These reclassifications had no impact on net asset balances and were presentation in nature only.

Note 2 – Receivables

Pledges receivable – In May 2016, the Organization received a grant of $3,100,000 from the Shea Family Charities to support the installation of air conditioning in four Diocesan schools. This amount is expected to be collected within 12 months of the fiscal year end.

Receivables from 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.

Note 2 – Receivables (continued)

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

	2016	2015
Cemetery receivables, net of allowance of $77,840 and $38,177 as of June 30, 2016 and 2015, respectively	$ 9,938,494	$ 9,880,763
Pastoral Services Appeal ("PSA") receivable	2,809,554	2,752,700
Parish billings, net of allowance of $913,123 and $440,000 as of June 30, 2016 and 2015, respectively	2,207,175	2,524,539
Receivables from other institutions	374,525	356,970
Total receivables from other related institutions and cemetery sales, net	$ 15,329,748	$ 15,514,972

Cemetery receivables as of June 30, 2016 are expected to be collected as follows:

Years ending June 30:	
2017	$ 4,511,185
2018	2,167,934
2019	1,500,270
2020	1,020,370
2021	465,702
Thereafter	350,873
Total	10,016,334
Less: allowance for doubtful accounts	(77,840)
Total	$ 9,938,494

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). At June 30, 2016, loan maturities ranged from July 2024 through June 2044. There are two loans totaling approximately $535,000 that are past due. These have been fully reserved as of June 30, 2016 and 2015. At June 30, 2016 and 2015, the Organization had the following amounts due from various parishes and schools:

	2016	2015
Parish and school loans	$ 14,408,463	$ 14,453,641
Less: allowance for doubtful accounts	(14,383,359)	(13,302,160)
Total loans receivable from parishes and schools, net	$ 25,104	$ 1,151,481

Note 2 – Receivables (continued)

Loans receivable from parishes and schools as of June 30, 2016 are expected to be collected as follows:

Years ending June 30:		
2017	$	215,450
2018		41,529
2019		42,367
2020		43,222
2021		44,094
Thereafter		14,021,801
Total	$	14,408,463

One parish, St. Catherine of Siena, makes up 90 percent of the outstanding balance at June 30, 2016 and June 20, 2015. This balance has been fully reserved against as of June 30, 2016 and 2015.

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, both related parties, to facilitate the purchase of owner-occupied properties. The Organization made a loan to a related Diocesan entity to assist them with sustaining their operations. At June 30, 2016 and 2015, the Organization had the following amounts due from related institutions:

	2016	2015
Christ Catholic Cathedral Facilities Corporation loan	$ 55,606,030	$ 55,523,955
Orange Catholic Foundation capital campaigns	1,010,000	1,010,833
Catholic Charities of Orange County	596,325	673,801
Other parishes and institutions	1,811,726	1,909,732
	59,024,081	59,118,321
Less: allowance for doubtful accounts	(125,254)	-
Total loans receivable from related institutions, net	$ 58,898,827	$ 59,118,321

Note 2 – Receivables (continued)

The following is a schedule of future payments:

Years ending June 30:		
2017	$	370,222
2018		229,668
2019		1,491,593
2020		1,194,590
2021		197,679
Thereafter		55,540,329
Total	$	59,024,081

Loans receivable for the repayment of bonds – In 2009, the Organization entered into a debt facility (see Note 9) to assist Santa Margarita Catholic High School ("SMCHS"), a related party, with funding the construction of a new facility. Concurrent with the debt facility, the Organization entered into a subordinate agreement with SMCHS, thereby creating a loan receivable from SMCHS equal to the amount of the related debt. The loan receivable was refinanced in September 2013 with loan terms which are aligned with the related debt (see Note 9). Under the agreement, SMCHS is required to directly repay the financial institutions in accordance with the terms of the related debt agreement. At June 30, 2016 and 2015, the amount due from SMCHS was $20,319,593 and $20,871,593, respectively.

Beneficial interest in charitable remainder trusts – The Organization has been named as a beneficiary in three irrevocable charitable remainder trusts. Under the terms of the split-interest agreements, the Organization is to receive all or a portion of the value of the trust upon the death of the beneficiaries. The initial contributions were recorded at fair value as a beneficial interest receivable and temporarily restricted or permanently restricted contributions. At the end of each fiscal year, the trust assets are valued based on fair value and the present value of future benefits expected to be received by the Organization are determined using beneficiaries' life expectancies and discount rates based on current market conditions. Present value discount rates applied as of June 30, 2016 and 2015 was 1.8 percent. The fair value of the remainder interest as of June 30, 2016 and 2015 was $105,069 and $109,651, respectively.

Note 3 – Investments

Investments are recorded at fair value. Investments as of June 30, 2016 and 2015 are summarized as follows:

	2016	2015
Long-term investments	$ 125,075,069	$ 131,066,070
Investments held in trust (see Note 7)	122,084,560	119,250,746
Endowment investments (see Note 12)	2,670,497	2,670,497
Total investments	$ 249,830,126	$ 252,987,313

Note 4 – Fair Value Measurements

The following schedule summarizes investment income (loss) recognized in the statements of activities for the years ended June 30, 2016 and 2015:

Net realized gains	$ 1,031,332	$ 8,178,175
Net unrealized losses	(9,181,097)	(4,099,950)
Interest and dividends	4,521,307	5,367,782
Other, net	760,662	1,046,643
Total	$ (2,867,796)	$ 10,492,650

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, 2016:

	Level 1	Level 2	Level 3	Net Asset Value or Equivalent	Total
Fair value assets:					
Investments:					
Cash and cash equivalents	$ 6,662,749	$ -	$ -	$ -	$ 6,662,749
Fixed-income obligations:					
Corporate	-	16,553,681	-	-	16,553,681
Foreign	-	4,703,341	-	-	4,703,341
U.S. government	-	14,392,088	-	-	14,392,088
Common stocks and equities:					
Domestic	75,405,510	-	-	-	75,405,510
International	17,712,383	-	-	-	17,712,383
Mutual funds:					
Domestic	35,672,529	-	-	-	35,672,529
International	37,965,688	-	-	-	37,965,688
Alternative investments:					
Common stocks and equities:					
International	-	-	-	10,680,680	10,680,680
Commingled Trust	-	-	-	6,211,139	6,211,139
Hedge funds:					
Fund of funds	-	-	-	10,653,831	10,653,831
Credit/Event-driven	-	-	-	3,328,686	3,328,686
Private equity:					
Secondaries	-	-	-	492,652	492,652
Buyouts	-	-	-	7,254,027	7,254,027
Mezzanine	-	-	-	406,600	406,600
Distressed	-	-	-	231,911	231,911
Fund of funds	-	-	-	1,502,631	1,502,631
Total fair value investments	173,418,859	35,649,110	-	40,762,157	249,830,126
Beneficial interest in charitable remainder trusts	-	-	105,069	-	105,069
Total fair value assets	$ 173,418,859	$ 35,649,110	$ 105,069	$ 40,762,157	$ 249,935,195
Fair value liabilities					
Swap liability (Note 8)	$ -	$ 463,160	$ -	$ -	$ 463,160
Total fair value liabilities	$ -	$ 463,160	$ -	$ -	$ 463,160

Note 4 – Fair Value Measurements (continued)

The following table summarizes financial assets measured at fair value on a recurring basis as of June 30, 2015:

	Level 1	Level 2	Level 3	Net Asset Value or Equivalent	Total
Fair value assets:					
Investments:					
Cash and cash equivalents	$ 8,382,745	$ -	$ -	$ -	$ 8,382,745
Fixed-income obligations:					
Corporate	-	19,117,268	-	-	19,117,268
Foreign	-	5,659,304	-	-	5,659,304
U.S. government	-	10,469,949	-	-	10,469,949
Common stocks and equities:					
Domestic	84,256,313	-	-	-	84,256,313
International	16,528,604	-	-	-	16,528,604
Mutual funds:					
Domestic	27,827,396	-	-	-	27,827,396
International	35,988,833	-	-	-	35,988,833
Alternative investments:					
Common stocks and equities:					
International	-	-	-	12,851,121	12,851,121
Commingled Trust	-	-	-	6,270,044	6,270,044
Hedge funds:					
Fund of funds	-	-	-	11,847,462	11,847,462
Credit/Event-driven	-	-	-	3,337,804	3,337,804
Private equity:					
Secondaries	-	-	-	800,787	800,787
Buyouts	-	-	-	7,255,761	7,255,761
Mezzanine	-	-	-	637,224	637,224
Distressed	-	-	-	298,436	298,436
Fund of funds	-	-	-	1,458,262	1,458,262
Total fair value investments	172,983,891	35,246,521	-	44,756,901	252,987,313
Beneficial interest in charitable remainder trusts	-	-	109,651	-	109,651
Total fair value assets	$ 172,983,891	$ 35,246,521	$ 109,651	$ 44,756,901	$ 253,096,964
Fair value liabilities					
Swap liability (Note 8)	$ -	$ 185,544	$ -	$ -	$ 185,544
Total fair value liabilities	$ -	$ 185,544	$ -	$ -	$ 185,544

Note 4 – Fair Value Measurements (continued)

Valuation policy – The Controller, 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, 2016:

	Fair Value	Redemption Frequency	Redemption Notice Period	Other Restrictions	Investment Strategy	Unfunded Capital
Alternative investments:						
Common stocks and equities:						
International	$ 10,680,680	Monthly	10 days	None	[1]	$ -
Commingled trust	6,211,139	Quarterly	60 days	None	[4]	-
Hedge funds:					[2]	
Fund of funds	10,653,831	Quarterly	90 days	None	[2a]	-
Credit/Event-driven	3,328,686	Quarterly	65 days (180 days for full redemption)	25% per quarter w/ 65 days; 5% fee for full redemption	[2b]	-
Private equity:					[3]	
Secondaries	492,652	10 yr lock up	N/A	Possible three 1 yr extensions	[3a]	436,000
Buyouts	7,254,027	6 to 10 yr lock up	N/A	Possible extension up to 3 yrs	[3b]	2,159,914
Mezzanine	406,600	10 yr lock up	N/A	Possible 5 yr extension	[3c]	404,250
Distressed	231,911	10 yr lock up	N/A	None	[3d]	100,000
Fund of funds	1,502,631	10 yr lock up	N/A	None	[3e]	532,000
	$ 40,762,157					$ 3,632,164

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. Because alternative investments represent approximately 16 percent of the total portfolio and are targeted to produce significant return over time, the impact to our liquidity is acceptable to management.

[2] 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.

[2a] 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 fees for fund of funds are generally less than standalone hedge funds, but investors are paying a second layer of management fees, which is reflected in the net return for the fund of 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.

[2b] 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.).

[3] 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.

[3a] 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.

[3b] 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.

Note 4 – Fair Value Measurements (continued)

[3c] 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. A manager implementing a mezzanine strategy will typically be associated with buyouts or acquisitions.

[3d] 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.

[3e] 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.

[4] 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.

Note 5 – Cemetery Inventory

At June 30, 2016 and 2015, inventory consists of cemetery property available for sale, under development, and land for future development:

	2016	2015
Internment	$ 15,354,370	$ 16,413,191
Work-in-process	305,438	-
Undeveloped land	679,270	679,270
Total cemetery inventory	$ 16,339,078	$ 17,092,461

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.

Note 6 – Property, Equipment, and Improvements

A summary of property, equipment, and improvements at June 30, 2016 and 2015 is as follows:

	2016	2015
Land, buildings, and improvements	$ 33,491,534	$ 33,495,109
Furniture, fixtures, and equipment	5,041,168	4,773,987
Construction in progress	76,121	150,981
Total property, equipment, and improvements	38,608,823	38,420,077
Less: accumulated depreciation and amortization	(12,350,688)	(10,557,861)
Total property, equipment, and improvements, net	$ 26,258,135	$ 27,862,216

As a result of the Organization's decision in the year ended June 30, 2014 to move its administrative facility to the Christ Catholic Cathedral Pastoral Center, the Roman Catholic Bishop of Orange listed its prior facility, known as the Marywood Pastoral Center, for sale and the property was in escrow as of June 30, 2015. The building and improvements were reflected in the statements of financial position as "assets held for sale" at a net book value of $1,976,845 as of June 30, 2015. In February 2016, the Organization sold the Marywood Pastoral Center for $19,000,000 and recorded a gain of $17,023,155 on the sale.

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, 2016 and 2015 were $122,084,560 and $119,250,746, respectively.

Note 8 – Notes Payable

The Organization has two notes payable with U.S. Bank, in the amounts of $20,400,000 and $35,000,000. The $20,400,000 note accrues interest at an annual rate equal to 0.55 percent plus one-month LIBOR. In December 2015, the note was amended to extend the maturity date from December 31, 2015 to December 31, 2016. The $35,000,000 note accrues interest at an annual rate equal to 0.75 percent plus one-month LIBOR and matures May 31, 2018. Both notes are interest-only with a lump sum payment due upon their maturity dates. The outstanding balances were $20,400,000 and $35,000,000 for both years ended June 30, 2016 and 2015. Interest expense on the debt totaled $580,135 and $485,222 as of June 30, 2016 and 2015, respectively. The debt is secured by a portion of the investment portfolio. The Organization must comply with various financial and nonfinancial covenants. Accrued interest as of June 30, 2016 and 2015 was $77,120 and $70,645, respectively, and is included in the notes payable balance.

Note 8 – Notes Payable (continued)

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 interest-rate swap agreements for the loans noted above. The intention of the swap agreements is to effectively change the Organization's variable interest rate to a fixed rate. The swap agreements were entered into effective February 1, 2012 for a notional amount equal to the outstanding principal amounts of the loans. The swap agreement for the $20,400,000 note ended on January 26, 2015. The swap agreement for the $35,000,000 note is scheduled to end on May 31, 2018. As of June 30, 2016 and 2015, the fair value of the interest-rate swap agreement was a liability of $463,160 and $185,544, respectively, and has been reflected in other liabilities in the statements of financial position as of June 30, 2016 and 2015, respectively. Fair value was determined using a variable rate of 1.24 percent. Interest expense on the swap agreements totaled $327,626 and $432,949 as of June 30, 2016 and 2015, respectively.

Note 9 – Bonds Payable

On February 1, 2009, the Organization, on behalf of SMCHS entered into a loan agreement with the California Municipal Finance Authority and a letter of credit reimbursement agreement with U.S. Bank, acting as the credit bank for the funding. Under the loan agreement, the California Municipal Finance Authority issued its tax exempt Refunding Revenue Bonds Series 2010, in the aggregate principal amount of $19,190,000, the proceeds of which were used by SMCHS for the purpose of construction of the school buildings. SMCHS is obligated to pay all sums necessary for the payment of the debt service on the bonds. In September 2013, the bonds were refinanced to increase the aggregate principal amount to $21,800,000 and to extend the maturity date to May 1, 2039. The interest rate is fixed at 3.63 percent. Interest is payable semi-annually on each May 1 and November 1. As of June 30, 2016 and 2015, the outstanding balance was $20,192,000 and $20,744,000, respectively. Accrued interest as of June 30, 2016 and 2015 was $127,593 and is included in the bonds payable balance. Bonds payable are secured by real property and certain assets owned by SMCHS. The note agreement contains various financial covenants. Management is not aware of any non-compliance with such covenants as of June 30, 2016.

On August 1, 2016, the SMCHS bond agreement was amended to remove the Organization from any legal obligations on the bonds. At the time the bonds were issued, the financial position of SMCHS required the Organization to share liability obligations on the financing. The financial position of SMCHS has significantly improved and it was determined that the Organization is no longer needed to be an obligor on these bonds.

Note 10 – 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. 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.

Note 10 – Priests' Pension and Post-Retirement Benefits (continued)

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:

	Pension Benefits
Projected benefit obligation at June 30, 2014	$ 20,816,000
Gain due to July 1 re-measurement	(489,000)
Increase (decrease) due to:	
Service cost	673,000
Interest cost	856,000
Actual benefit payments	(579,000)
Administrative expenses	(49,000)
Loss during the year due to change in assumptions	1,532,000
Projected benefit obligation at June 30, 2015	22,760,000
Gain due to July 1 re-measurement	(515,000)
Increase (decrease) due to:	
Service cost	742,000
Interest cost	963,000
Actual benefit payments	(640,000)
Administrative expenses	(61,000)
Loss during the year due to change in assumptions	2,212,000
Additional liability due to plan amendment	2,829,000
Projected benefit obligation at June 30, 2016	$ 28,290,000

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	
	2016	**2015**	**2016**	**2015**
Projected benefit obligation	$ 28,290,000	$ 22,760,000	$ 15,970,000	$ 14,715,000
Plan assets at fair value	(11,012,000)	(9,893,000)	-	-
Under-funded status	$ 17,278,000	$ 12,867,000	$ 15,970,000	$ 14,715,000

Note 10 – Priests' Pension and Post-Retirement Benefits (continued)

Amounts recognized in the statements of financial position consist of:

	2016	2015
Total under-funded status	$ 33,248,000	$ 27,582,000
Supplemental liability	311,000	368,000
Total priests' pension/post-retirement benefits accrual	$ 33,559,000	$ 27,950,000

The accumulated benefit obligation for the defined-benefit pension plan was $19,500,000 and $16,083,000 at June 30, 2016 and 2015, respectively.

The pension and post-retirement plans' pension expense, pension benefits paid, and employer contributions for the years ended June 30, 2016 and 2015 are as follows:

	Pension Benefits		Post-Retirement Benefits	
	2016	2015	2016	2015
Net pension expense	$ 1,075,000	$ 877,000	$ -	$ -
Pension/post-retirement benefits paid	$ 640,000	$ 579,000	$ 316,000	$ 356,000
Employer contributions	$ 1,958,000	$ 376,000	$ 316,000	$ 356,000
Net post-retirement expense	$ -	$ -	$ 1,453,000	$ 1,310,000

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

	Pension Benefits		Post-Retirement Benefits	
	2016	2015	2016	+
Net loss	$ 2,572,000	$ 1,431,000	$ 379,000	$ 3,633,000
New prior service cost during the year	2,829,000	-	-	-
Amortization of gain	(107,000)	(29,000)	(261,000)	(239,000)
Total	$ 5,294,000	$ 1,402,000	$ 118,000	$ 3,394,000

Note 10 – Priests' Pension and Post-Retirement Benefits (continued)

Amounts recognized as unrestricted net assets in the statements of activities as of June 30, 2016 and 2015 are as follows:

	Pension Benefits	Post-Retirement Benefits
Amount recognized as of June 30, 2015	$ 4,444,000	$ 6,154,000
Total recognized during the year	5,294,000	118,000
Amount recognized as of June 30, 2016	$ 9,738,000	$ 6,272,000

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

	Pension Benefits		Post-Retirement Benefits	
	2016	2015	2016	2015
Weighted-average assumptions used to determine benefit obligations at June 30:				
Discount rate	3.6%	4.4%	3.8%	4.4%
Assumed future annual benefit increases	2.5%	2.5%	-	-
Health care cost trend	-	-	5.0%	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	4.4%	4.3%	4.4%	4.3%
Expected long-term rate of return on assets	7.0%	7.0%	-	-
Assumed future annual benefit increases	2.5%	2.5%	-	-
Health care cost trend	-	-	5.0%	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.

Note 10 – Priests' Pension and Post-Retirement Benefits (continued)

Plan asset investment strategy and allocation – The asset allocation for the pension plan as of June 30, 2016, and the target allocation, by asset category are:

	Diocesan-Approved Asset Allocation Range	Policy Benchmark Asset Allocation	Actual Percentage of Plan Assets 2016	Actual Percentage of Plan Assets 2015
Class:				
Equities	45 to 75%	65%	62%	63%
Fixed Income	25 to 55%	35%	38%	37%
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:

	2016	2015
Plan Assets:		
Investments:		
Domestic common stock	$ 1,075,000	$ 1,079,000
Mutual funds:		
Equities:		
Domestic	3,666,000	3,103,000
International	2,073,000	2,058,000
Fixed income:		
Domestic	4,198,000	3,653,000
Total	$ 11,012,000	$ 9,893,000

Note 10 – Priests' Pension and Post-Retirement Benefits (continued)

The Organization expects to contribute $600,000 to its pension plan and $0 to its other post-retirement benefit plan during the year ended June 30, 2017.

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
Years ending June 30:		
2017	$ 759,000	$ 323,000
2018	803,000	344,000
2019	864,000	366,000
2020	992,000	423,000
2021	1,013,000	439,000
2022-2026	6,220,000	2,851,000
Total	$ 10,651,000	$ 4,746,000

Note 11 – Net Assets

As of June 30, 2016 and 2015, net assets were classified as follows:

	2016	2015
Unrestricted, undesignated net assets	$ (7,331,227)	$ 4,189,331
Plant	39,869,136	45,669,138
Cemetery care	36,244,478	35,654,057
Cathedral renovation	20,000,000	-
Debt reduction reserves	18,388,559	-
Insurance reserves	18,377,133	42,960,544
Earthquake retrofit	6,273,413	8,805,000
Investment returns reserve	5,368,647	-
Other	5,072,019	4,353,114
Catholic education	259,312	985,257
Bishop discretionary funds	131,098	123,338
Seminarians	100,085	100,085
Priest retirement and relief	49,071	49,071
Total unrestricted, designated net assets	150,132,951	138,699,604
Total unrestricted net assets	$ 142,801,724	$ 142,888,935

Note 11 – Net Assets (continued)

Temporarily restricted net assets were available for the following purposes:

	2016	2015
Catholic education grants and assistance	$ 13,340,895	$ 13,323,495
Construction projects	2,785,253	-
Pastoral services appeal	1,458,166	5,343,362
Other	774,075	718,168
Parishes in need	424,447	359,907
Endowment appreciation and income, not appropriated	252,356	343,859
Total	$ 19,035,192	$ 20,088,791

During the year ended June 30, 2016, $3,888,420 in funds temporarily restricted to support the PSA were transferred to unrestricted net assets. These funds represent amounts that were contributed and spent prior to July 1, 2015 but were not included in releases for the year ended June 30, 2015.

Temporarily restricted net assets were released for the following purposes:

Pastoral services appeal	$ 3,528,764	$ 75,840
Catholic education grants and assistance	1,493,000	1,478,000
Construction projects	314,747	-
Other	246,815	249,123
Endowment appreciation and income, appropriated	185,000	40,000
Parishes in need	155,335	102,034
Total	$ 5,923,661	$ 1,944,997

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

Bishop McFarland Trust	$ 2,670,497	$ 2,670,497
Seminarian endowment	204,989	195,141
Total	$ 2,875,486	$ 2,865,638

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 12 – 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

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.

Note 12 – Endowment Funds (continued)

The classification of the endowment assets were as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total Endowment Net Assets
Endowment net assets, July 1, 2014	$ -	$ 368,991	$ 2,865,438	$ 3,234,429
Contribution	-	-	200	200
Investment income	-	14,868	-	14,868
Amounts appropriated for expenditure	-	(40,000)	-	(40,000)
Endowment net assets, June 30, 2015	-	343,859	2,865,638	3,209,497
Contribution	-	-	9,848	9,848
Investment income	-	93,497	-	93,497
Amounts appropriated for expenditure	-	(185,000)	-	(185,000)
Endowment net assets, June 30, 2016	$ -	$ 252,356	$ 2,875,486	$ 3,127,842

Note 13 – 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, 2016 and 2015, the OCF collected $2,809,554 and $2,760,048, 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 – Related-Party Transactions (continued)

Management service agreements – The Organization has an agreement with the CCCC for the purpose of managing the Cathedral Memorial Gardens and for providing leased employees. The nature of this agreement for the Cathedral Memorial Gardens is to provide management and sales support for interment services at the Memorial Gardens cemetery located on the Christ Cathedral campus. The Organization also has an agreement with the Orange Catholic Foundation for the purpose of providing leased employees. The OCF compensates the Organization for these services through their monthly remittance for rent and overhead.

Note 14 – 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. A summary of these grants and donations are as follows:

	2016	2015
Assistance grants to parishes and schools	$ 3,359,290	$ 2,457,843
Grants to CCCC	2,500,000	3,000,000
Earthquake retrofit grants	2,531,587	-
High school scholarships	750,000	900,000
Other grants, donations, and scholarships	107,502	325,404
Parishes and schools in need	155,335	107,206
Parish and school debt forgiveness	-	102,749
Total	$ 9,403,714	$ 6,893,202

Note 15 – 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 and $42,960,544 designated at June 30, 2016 and 2015, respectively. As of June 30, 2016 and 2015, the Organization is not aware of any specific claims in excess of the combined self-insurance and insured limits.

Note 16 – Litigation and Legal Expenses

The Organization is involved in various lawsuits relating to claims of alleged sexual misconduct and other matters. Of the remaining misconduct cases, the majority are past the statute of limitations and lower courts have upheld the Organization's position.

While the civil matters are being appealed, management believes it will prevail. 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 17 – 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 participant's 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.

Note 18 – 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 2016 and 2015. Benefits vest based on periods of service and are measured in 12-month increments starting with date of hire. Vesting begins after two (2) periods of service are completed and benefits are fully vested after six periods of service. Total contributions for the Organization's employees for the years ended June 30, 2016 and 2015 were $605,999 and $548,001, respectively.

Note 19 – Lease Commitments

In September 2013, the Organization relocated its offices to the campus of Christ Catholic Cathedral (the "Campus"). The Organization entered into a 10-year lease with the Christ Catholic Cathedral Corporation ("CCCC"), a related party, for administrative offices within the Pastoral Center located on the Campus. Under the terms of the lease, the base rent for the first year is set at $75,476 per month. The lease term is for ten years expiring September 30, 2023 with two five-year option renewals. On an annual basis, the base rent will increase based on the year over year building operating cost increases.

Note 19 – Lease Commitments (continued)

The Organization also leases office space located in Orange, California under an operating lease expiring October 31, 2017 with one three-year option to renew. Monthly lease payments are $2,206.

Total lease payments under the operating leases during the years ended June 30, 2016 and 2015 were $1,080,592 and $1,061,330, respectively.

The approximate annual minimum lease payments under the operating leases as of June 30, 2016 are:

Years ending June 30:		
2017	$	932,184
2018		914,536
2019		905,712
2020		905,712
2021		905,712
Thereafter		2,037,852
Total	$	6,601,708

Note 20 – Subsequent Events

On July 1, 2016, the CCCC board transitioned the administration of the Cathedral campus and the management of the operations of the campus to the RCBO. The CCCC will continue to manage the fundraising for and renovation of Christ Cathedral.