

**THE CATHOLIC FOUNDATION OF SANTA CLARA
COUNTY**

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Delucchi, Hawn & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
The Catholic Foundation of Santa Clara County
San Jose, California

We have audited the accompanying statements of financial position of The Catholic Foundation of Santa Clara County, as of December 31, 2009 and 2008, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Foundation's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Catholic Foundation of Santa Clara County, as of December 31, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Delucchi, Hawn & Co., LLP

San Jose, California
May 26, 2010

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2009	2008
Cash and cash equivalents	\$ 5,169,883	\$ 5,590,324
Investments	21,618,601	13,590,006
Promises to give, net	18,534,217	30,176,895
Other receivables	47,986	111,076
Property and equipment, net	32,636	45,692
Prepaid expenses	23,866	10,996
	\$ 45,427,189	\$ 49,524,989

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued liabilities	\$ 109,078	\$ 54,672
Grants payable	1,079,864	23,500
Beneficial interests payable, net	4,981,644	6,532,026
Beneficial endowments	339,708	254,429
	6,510,294	6,864,627
Net assets:		
Unrestricted		
Undesignated	13,749,644	29,583,124
Board designated	18,572,238	6,821,550
	32,321,882	36,404,674
Temporarily restricted	375,013	229,890
Permanently restricted	6,220,000	6,025,798
	38,916,895	42,660,362
	\$ 45,427,189	\$ 49,524,989

See Notes to Financial Statements

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
STATEMENTS OF ACTIVITIES

	For the Years Ended											
	December 31, 2009					December 31, 2008						
	Unrestricted	Board Designated Unrestricted	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Board Designated Unrestricted	Total Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support												
Donations	\$ 1,958,291	\$ -	\$ 1,958,291	\$ 209	\$ 69,053	\$ 2,027,553	\$ 1,709,547	\$ -	\$ 1,709,547	\$ 540	\$ 63,324	\$ 1,773,411
Interest and dividends, net	77,198	287,304	364,502	128,446	-	492,948	195,583	198,156	393,739	137,773	-	531,512
Realized and unrealized losses												
on investments, net	897,103	1,597,178	2,494,281	16,907	-	2,511,188	(1,443,527)	(1,231,354)	(2,674,881)	(338,648)	-	(3,013,529)
Other income loss	(804)	-	(804)	-	-	(804)	2,080	-	2,080	-	-	2,080
	<u>2,931,788</u>	<u>1,884,482</u>	<u>4,816,270</u>	<u>145,562</u>	<u>69,053</u>	<u>5,030,885</u>	<u>463,683</u>	<u>(1,033,198)</u>	<u>(569,515)</u>	<u>(200,335)</u>	<u>63,324</u>	<u>(706,526)</u>
Other adjustments												
Uncollectible pledges	-	-	-	(439)	125,149	124,710	-	-	-	(4,216)	(503,849)	(508,065)
Transfer of restricted net assets	-	-	-	-	-	-	-	-	-	(3,884)	(904,935)	(908,819)
Change in donor restrictions	-	-	-	-	-	-	(4,125)	-	(4,125)	-	4,125	-
Board designations	(10,528,933)	10,528,933	-	-	-	-	(8,144,470)	8,144,470	-	-	-	-
	<u>(7,597,145)</u>	<u>12,413,415</u>	<u>4,816,270</u>	<u>145,123</u>	<u>194,202</u>	<u>5,155,595</u>	<u>(7,684,912)</u>	<u>7,111,272</u>	<u>(573,640)</u>	<u>(208,435)</u>	<u>(1,341,335)</u>	<u>(2,123,410)</u>
Grants and expenses												
Grants	4,495,658	662,727	5,158,385	-	-	5,158,385	4,151,591	289,722	4,441,313	-	-	4,441,313
General and administrative	1,072,357	-	1,072,357	-	-	1,072,357	796,343	-	796,343	-	-	796,343
Uncollectible pledges	2,668,320	-	2,668,320	-	-	2,668,320	5,192,376	-	5,192,376	-	-	5,192,376
Total expenses	<u>8,236,335</u>	<u>662,727</u>	<u>8,899,062</u>	<u>-</u>	<u>-</u>	<u>8,899,062</u>	<u>10,140,310</u>	<u>289,722</u>	<u>10,430,032</u>	<u>-</u>	<u>-</u>	<u>10,430,032</u>
Changes in net assets	(15,833,480)	11,750,688	(4,082,792)	145,123	194,202	(3,743,467)	(17,825,222)	6,821,550	(11,003,672)	(208,435)	(1,341,335)	(12,553,442)
Net assets, beginning of year	<u>29,583,124</u>	<u>6,821,550</u>	<u>36,404,674</u>	<u>229,890</u>	<u>6,025,798</u>	<u>42,660,362</u>	<u>47,408,346</u>	<u>-</u>	<u>47,408,346</u>	<u>438,325</u>	<u>7,367,133</u>	<u>55,213,804</u>
Net assets, end of year	<u>\$ 13,749,644</u>	<u>\$ 18,572,238</u>	<u>\$ 32,321,882</u>	<u>\$ 375,013</u>	<u>\$ 6,220,000</u>	<u>\$ 38,916,895</u>	<u>\$ 29,583,124</u>	<u>\$ 6,821,550</u>	<u>\$ 36,404,674</u>	<u>\$ 229,890</u>	<u>\$ 6,025,798</u>	<u>\$ 42,660,362</u>

See Notes to Financial Statements

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	2009	2008
Cash flows from operating activities:		
Changes in net assets	\$ (3,743,467)	\$ (12,553,442)
Adjustments to reconcile changes in net assets to cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	(2,511,188)	3,013,529
Net unamortized discount on promises to give and beneficial interest payable	(1,353,663)	257,587
Loss on disposal of property and equipment	804	5,668
Depreciation	12,252	6,398
Donated marketable securities	(2,124,761)	(645,012)
Contribution restricted for long-term purposes	(52,978)	(63,324)
Changes in assets and liabilities:		
Promises to give, net	13,223,596	28,345,410
Other receivables	63,090	(111,076)
Prepaid expenses	(12,870)	(10,996)
Accounts payable and accrued liabilities	54,406	5,418
Grants payable	1,056,364	23,500
Beneficial interests payable, net	(1,777,637)	(13,236,294)
Beneficial endowments	50,422	(1,694,607)
Net cash provided by operating activities	2,884,370	3,342,759
Cash flows from investing activities:		
Acquisition of property and equipment	-	(43,092)
Proceeds from sales of investments	11,385,291	4,568,559
Purchases of investments	(14,743,080)	(13,303,442)
Net cash used by investing activities	(3,357,789)	(8,777,975)
Cash flows from financing activities:		
Investment in permanent endowment	52,978	63,324
Decrease in cash and cash equivalents	(420,441)	(5,371,892)
Cash and cash equivalents, beginning of year	5,590,324	10,962,216
Cash and cash equivalents, end of year	\$ 5,169,883	\$ 5,590,324

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for:		
Interest	\$ <u> -</u>	\$ <u> -</u>
Income taxes	\$ <u> -</u>	\$ <u> -</u>

See Notes to Financial Statements

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 and 2008

Note A - Organization

Nature of Activities

The Catholic Foundation of Santa Clara County (the "Foundation") was incorporated in March 2004 as a non-profit public benefit corporation.

The Foundation's mission is to support financially the educational, spiritual and social needs of the Catholic community of Santa Clara County. It will accomplish its mission by raising endowment and capital funds for the following purposes:

- Support various parish social programs as well as repair and maintenance needs
- Provide increased assistance to schools primarily through increased tuition grants
- Provide for the financial security of retired priests
- Assist Catholic Charities in its efforts to serve those in great need
- Support vocations and seminarian educations and development
- Repair and maintenance of the Cathedral Basilica in San Jose, California
- Assist the Diocese of San Jose to reduce its debt burden

Note B - Summary of Significant Accounting Policies

Use of Estimates

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

Fund Accounting

The accounts of the Foundation are maintained in accordance with the principles of fund accounting. This is the procedure by which resources for various purposes are classified for accounting and reporting purposes into funds that are in accordance with specified activities or objectives. Accordingly, all financial transactions have been recorded by fund group. However, for the financial statements, transactions are reported by the net asset categories described in Note B under "Categories of Net Assets."

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Foundation considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 and 2008

Note B - Summary of Significant Accounting Policies (continued)

Investments

Investments in marketable securities with readily determinable fair values and all investments in debt securities are reported at their fair values in the Statements of Financial Position. Unrealized gains and losses are included in the change in net assets. 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.

Investment Pools

The Foundation maintains master investment accounts for its donor-restricted and board-designated endowments. Realized and unrealized gains and losses from marketable securities in the master investment accounts are allocated monthly to the individual endowments based on the relationship of the market value of each endowment to the total market value of the master investment accounts, as adjusted for additions to or deductions from those accounts.

Promises to Give

Promises to give are either unconditional or conditional. Unconditional promises to give are promises that depend only on the passage of time or the demand by the promisee for performance, at which time the related revenue is recognized. A conditional promise to give is a promise that depends on the occurrence of a specified future and uncertain event to bind the promisee, at which time the revenue is recognized.

Promises to give are recorded at fair value which requires management to reduce the pledge balance for amounts that are considered uncollectible at the time the pledge is recorded. In addition, if the promises to give will be satisfied in more than a year, the pledges have been discounted to present value.

Management established an allowance for uncollectible pledges that is based on management's analysis of the character of the pledges, current economic conditions and other such factors that deserve recognition in estimating losses. The allowance was \$20,084,564 and \$19,367,653 at December 31, 2009 and 2008, respectively.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 and 2008

Note B - Summary of Significant Accounting Policies (continued)

Property and Equipment

Property and equipment are stated at cost or at their estimated fair value at date of donation. Depreciation is provided using the straight-line method over the estimated useful lives of the assets as follows:

Computer equipment	3 years
Office equipment	5 years

Additions and betterments are capitalized, while maintenance and repairs that do not improve or extend the useful lives of the respective assets are expensed as incurred.

Accumulated depreciation was \$19,435 and \$8,606 as of December 31, 2009 and 2008, respectively and depreciation expense was \$12,252 and \$6,398 for the years ended December 31, 2009 and 2008, respectively.

Beneficial Interests Payable

As part of its mission, the Foundation receives donations from various donors solely to support other Catholic organizations in Santa Clara County. Such donations are collected by the Foundation on behalf of the various Catholic organizations. These donations are accounted for as beneficial interests payable and are not recorded as revenue.

Categories of Net Assets

The net assets of the Foundation are reported in the following categories:

- *Unrestricted net assets* generally have no donor-imposed restrictions and represent resources over which the Foundation has discretionary control, including those contributions where donor stipulations that are no more specific than the broad limits imposed by the Foundation purpose and nature.
- *Temporarily restricted net assets* include those resources for which donor-imposed restrictions have not been met and funds for which the ultimate purpose of the proceeds is not permanently restricted.
- *Permanently restricted net assets* include those resources which require by donor-imposed restriction that the corpus be invested in perpetuity and only the income be made available for Foundation operations in accordance with donor restrictions, if any. When a donor has restricted the realized/unrealized earnings/losses to be treated in the same manner as the original donation, those earnings/losses are shown as permanently restricted.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 and 2008

Note B - Summary of Significant Accounting Policies (continued)

Restricted and Unrestricted Support

Contributions that are restricted by donors are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restriction.

Concentration of Credit Risk

The Foundation has cash on deposit with a federally insured bank in excess of the maximum amount insured by the Federal Deposit Insurance Corporation.

Income Taxes

The Foundation is a not-for-profit corporation exempt from federal income taxes under Internal Revenue Code Section 501(c) (3). Additionally, the Foundation is exempt from state income taxes under similar tax regulations. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

On January 1, 2009, the Foundation adopted the authoritative accounting guidance which clarifies the accounting for uncertainty in income taxes recognized in the Foundation's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. This adoption also provides guidance on derecognition and measurement of a tax position taken or expected to be taken in a tax return. The adoption of the authoritative accounting guidance did not have a material effect on the Foundation.

The Foundation files income tax returns in the U.S. federal jurisdiction and state of California. The Foundation's federal income tax returns for the years 2006 and beyond remain subject to examination by the Internal Revenue Service. The Foundation's California income tax returns of the tax years 2005 and beyond remain subject to examination by the Franchise Tax Board.

Functional Allocation of Expenses

The costs of providing the various program services have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated principally on a direct cost basis, among the programs and supporting services.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 and 2008

Note B - Summary of Significant Accounting Policies (continued)

Fair Value of Financial Instruments

The authoritative guidance requires disclosure of an estimate of fair value of certain financial instruments. The Foundation's significant financial instruments are cash and cash equivalents, investments, promises to give and beneficial interest payable. For these financial instruments, carrying values approximate fair value.

The guidance establishes a hierarchy to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Foundation. Unobservable inputs reflect the Foundation's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

The fair value hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Values are unadjusted quoted prices for identical assets and liabilities in active markets accessible at the measurement date.

Level 2 – Inputs include quoted prices for similar assets or liabilities in active markets, quoted prices from those willing to trade in markets that are not active, or other inputs that are observable or can be corroborated by market data for the term of the instrument. Such inputs include market interest rates and volatilities, spreads and yield curves.

Level 3 – Certain inputs are unobservable (supported by little or no market activity) and significant to the fair value measurement. Unobservable input reflect the Foundation's best estimate of what hypothetical market participants would use to determine a transaction price for the asset or liability at the reporting date.

The following methods and assumptions were used by the Foundation in estimating the fair value of its financial instruments:

Cash and cash equivalents – The carrying amount reported in the statement of financial position approximates fair value because of the short maturity of those instruments. (Level 1)

Investments – The fair value of investments in marketable equity and debt securities is based on quoted market prices. Nonmarketable debt securities are valued based on estimated discounted future cash flows; nonmarketable equity securities are carried at estimated current value if it is possible to determine this, otherwise at cost. (Level 1)

Promises to give and beneficial interest payable – The fair value of promises to give and beneficial interest payable are estimated by discounting the future cash flows using the rates currently offered for deposits of similar remaining maturities. (Level 3)

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 and 2008

Note B - Summary of Significant Accounting Policies (continued)

Subsequent Events

Management has evaluated subsequent events through May 26, 2010 the date the financial statements were available to be issued.

Reclassifications

Certain reclassifications have been made to prior year amounts to be comparative with the current year's presentation.

Note C - Investments

In accordance with authoritative guideline, all the following investments are classified as Level 1 investments (See Note B).

The fair market value of investments as of December 31, consisted of the following:

	<u>2009</u>	<u>2008</u>
Corporate stocks	\$ 7,440,708	\$ 7,566,887
Corporate bonds	8,390,405	3,314,301
Mutual funds	279,324	227,616
International mutual funds	1,124,544	813,233
U.S. Government Securities	<u>4,383,620</u>	<u>1,667,969</u>
Total investments	<u>\$ 21,618,601</u>	<u>\$ 13,590,006</u>

Investment income for the years ended December 31, consisted of the following:

	<u>2009</u>	<u>2008</u>
Interest and dividend income	\$ 627,573	\$ 699,162
Net realized and unrealized gains (losses)	2,549,253	(3,745,551)
Investment expenses	<u>(132,019)</u>	<u>(119,519)</u>
	3,044,807	(3,165,908)
Less net investment income (loss) allocable to beneficial endowment	<u>40,671</u>	<u>(683,891)</u>
Net investment income (loss)	<u>\$ 3,004,136</u>	<u>\$ (2,482,017)</u>

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 and 2008

Note D - Promises to Give

Unconditional promises to give represent the remaining pledges due from the donors who have pledged funds to support the Foundation's mission.

Unconditional promises to give at December 31, 2009 and 2008 consist of the following:

	<u>2009</u>	<u>2008</u>
Receivable in less than one year	\$ 13,532,243	\$ 14,912,848
Receivable in one to five years	<u>27,731,316</u>	<u>38,857,397</u>
Total unconditional promises to give	41,263,559	53,770,245
Less: unamortized discount on pledges	(2,644,778)	(4,225,697)
Less: allowance for uncollectible pledges	<u>(20,084,564)</u>	<u>(19,367,653)</u>
	<u>\$ 18,534,217</u>	<u>\$ 30,176,895</u>

The unamortized discount on pledges was determined by applying an imputed interest rate of 2.5% on pledges received in 2008, there were no new pledges in 2009.

Note E - Line of Credit

The Foundation had a revolving line of credit agreement with Heritage Bank of Commerce which expired in December 2008. Borrowings under the agreement were unsecured, bore interest at the bank's index rate and were limited to \$1,000,000. The Foundation has not renewed the line of credit.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 and 2008

Note F - Restricted Net Assets

Temporarily restricted net assets are restricted by donors for the purposes described below. Permanently restricted net assets consist of investments held in perpetuity, the income of which is expendable for the purposes described below as of December 31:

Purpose restrictions	2009		2008	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Parish refurbishment endowment	\$ -	\$ 143,447	\$ -	\$ 143,977
Parish stewardship endowment	-	7,465	-	7,811
Parish outreach endowment	457	17,181	-	17,715
Seminarian endowment	21,509	1,817,034	-	1,850,139
Diaconate training endowment	-	9,394	-	14,029
Education endowment	76,234	4,075,931	-	3,841,030
ILM endowment	23	21,169	-	22,368
Pastoral ministry endowment	242	32,676	-	31,543
Youth ministry staff endowment	549	19,946	-	20,890
Young adult ministry endowment	339	17,067	-	18,999
Social justice endowment	-	12,358	-	12,030
New parish fund	274,476	-	229,890	-
Other endowments	<u>1,184</u>	<u>46,332</u>	<u>-</u>	<u>45,267</u>
	<u>\$ 375,013</u>	<u>\$ 6,220,000</u>	<u>\$ 229,890</u>	<u>\$ 6,025,798</u>

On November 11, 2008, the Board of Directors of the Foundation voted to transfer the clergy retirement endowment to the Diocese of San Jose. The Diocese of San Jose will manage the funds upon transfer and will maintain compliance of the terms of grants in accordance with the donors' restrictions. As of December 31, 2008, the clergy retirement endowment and the related net investment income of \$904,935 and \$3,884, respectively, were reclassified to beneficial interest payable to the Diocese of San Jose.

In 2008, certain donors requested the reclassification of pledges from unrestricted net assets to the Seminarian and Education endowments in the amount of \$3,000 and \$1,175, respectively.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 and 2008

Note G - Beneficial Interests Payable

A component of the capital campaign is to raise funds for other organizations in order to achieve the Foundation's mission. The Foundation releases the funds after verification by the end of the subsequent quarter following the collection of the funds. At December 31, 2009 and 2008 the beneficial interests payable were as follows:

	2009	2008
Catholic Charities	\$ 485,343	\$ 345,704
Diocese debt reduction	33,325	-
Parish support	4,614,238	6,243,159
Clergy retirement	627,324	1,039,900
Other	-	662
	5,760,230	7,629,425
Less: unamortized discount on pledges	(350,554)	(577,809)
Less: allowance for uncollectible pledges	(428,032)	(519,590)
	\$ 4,981,644	\$ 6,532,026

Note H - Beneficial Endowments

The Foundation accepts contributions from donors and agrees to transfer those assets and the return on investment of those assets or both, to another entity that is specified by the donor. The Foundation has agreements in place with the beneficiaries to currently retain the corpus and transfer the earnings to the stated beneficiary. These agreements can be modified by the stated beneficiary at any time in the future. The Foundation refers to such funds as beneficial endowments. During 2008, the Board of Directors of the Foundation voted to transfer certain gifts to The Cathedral Basilica to the Diocese of San Jose. The Diocese of San Jose will maintain compliance of the terms in accordance with the donors' restrictions. The following table summarizes the activity in such funds:

	2009	2008
Beginning balance	\$ 334,551	\$ 3,331,319
Contribution	52,978	-
Uncollectible pledges	(5,000)	-
Net investment income (loss)	40,671	(683,891)
Distributions	(4,052)	(2,292,877)
	419,148	334,551
Less: unamortized discount on pledges	(7,213)	(12,660)
Less: allowance for uncollectible pledges	(72,227)	(67,462)
Ending Balance	\$ 339,708	\$ 254,429

The Cathedral Basilica is the sole beneficiary of the beneficial endowments at December 31, 2009 and 2008.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 and 2008

Note I - Operating Agreements

Administrative Services Agreement

The Foundation entered into an administration services agreement with the Diocese of San Jose. Under the terms of the agreement, the Diocese of San Jose provided to the Foundation for its benefit property, equipment, clerical, financial and other administrative services as needed by the Foundation to conduct its day-to-day operations. The original agreement was amended in 2007 and was terminated in October 2008. For the year ended December 31, 2008 the total amount paid to the Diocese of San Jose in exchange for these services was \$88,634.

Note J - Commitments

The Foundation leases its office under a three year operating lease agreement which expires on December 31, 2011. The total rent expense for the years ended December 31, 2009 and 2008 was \$48,366 and \$17,963, respectively. The future minimum annual lease payments required under the lease agreement are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2010	\$ 46,776
2011	<u>49,116</u>
	<u>\$ 98,892</u>

Note K - Board Designations

The Foundation's Board has designated a portion of the unrestricted net assets. During the year ended December 31, 2009 and 2008 the Board made the following designations:

	<u>2009</u>	<u>2008</u>
Endowments	\$ 7,518,794	\$ 5,916,849
New parish fund	<u>3,010,139</u>	<u>2,227,621</u>
	<u>\$ 10,528,933</u>	<u>\$ 8,144,470</u>

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 and 2008

Note L - Endowments

The Foundation's endowments consist of approximately 13 individual funds established for a variety of purposes. Its endowment includes both donor-restricted funds and funds designated by the Board of Directors to function as endowments. As required by generally accepted accounting principles, net assets associated with endowment funds, including funds designated by the Board of Directors to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Law

The Board of Directors of the Foundation has interpreted the Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Foundation classifies as permanently restricted net assets (a) the original value of the gifts donated to the permanent endowment, (b) the original value of 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 asset is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, the Foundation considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

1. The duration and preservation of the fund
2. The purposes of the Foundation and the donor-restricted endowment fund
3. General economic conditions
4. The possible effect of inflation and deflation
5. The expected total return from income and appreciation of investments
6. Other resources of the Foundation
7. The investment policies of the Foundation

Investment Return Objectives, Risk Parameters and Strategies

The Foundation has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. Accordingly, the investment process seeks to achieve an after-cost total real rate of return, including investment income as well as capital appreciation, which exceeds the annual distribution with acceptable levels of risk. Endowment assets are invested in a well diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make an annual distribution of 3-5%, while growing the funds if possible. Therefore, the Foundation reviews endowment assets, over time, to produce an average rate of return of approximately 4-6% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 and 2008

Note L - Endowments (continued)

Spending Policy

The Foundation has a policy of appropriating for distribution each year a sum not to exceed 5% and no less than 3% of the average market value of the endowment funds over the previous 12 quarters. The Board of Directors did not make any distribution from donor-restricted endowments in 2009 and 2008 due to the unprecedented market losses experienced in 2008 and were not fully recovered in 2009.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the amount required to be retained as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of the donor-restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. The deficiencies amounted to \$2,077 and \$605,625 as of December 31, 2009 and 2008 respectively.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 and 2008

Note L - Endowments (continued)

Endowment net asset composition by type of funds as of December 31, 2009 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ (2,077)	\$ 100,537	\$ 6,220,000	\$ 6,318,460
Board-designated endowment funds	<u>13,036,544</u>	<u>-</u>	<u>-</u>	<u>13,036,544</u>
Total funds	<u>\$ 13,034,467</u>	<u>\$ 100,537</u>	<u>\$ 6,220,000</u>	<u>\$ 19,355,004</u>

Changes in endowment net assets for the year ended December 31, 2009 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Beginning of year	\$ 4,270,075	\$ -	\$ 6,025,798	\$ 10,295,873
Contributions, net	-	-	194,202	194,202
Investment income, net	308,550	6,746	-	315,296
Net appreciation (depreciation)	1,599,775	93,791	-	1,693,566
Amounts appropriated for expenditure	(662,727)	-	-	(662,727)
Transfers to create board-designated endowment funds	<u>7,518,794</u>	<u>-</u>	<u>-</u>	<u>7,518,794</u>
End of year	<u>\$ 13,034,467</u>	<u>\$ 100,537</u>	<u>\$ 6,220,000</u>	<u>\$ 19,355,004</u>

Endowment net asset composition by type of funds as of December 31, 2008 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ (605,625)	\$ -	\$ 6,025,798	\$ 5,420,173
Board-designated endowment funds	<u>4,875,700</u>	<u>-</u>	<u>-</u>	<u>4,875,700</u>
Total funds	<u>\$ 4,270,075</u>	<u>\$ -</u>	<u>\$ 6,025,798</u>	<u>\$ 10,295,873</u>

Changes in endowment net assets for the year ended December 31, 2008 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Beginning of year	\$ -	\$ 151,444	\$ 7,367,133	\$ 7,518,577
Contributions, net	-	-	(436,400)	(436,400)
Investment income, net	143,710	128,128	-	271,838
Net appreciation (depreciation)	(1,500,762)	(275,688)	-	(1,776,450)
Amounts appropriated for expenditure	(289,722)	-	-	(289,722)
Transfers to create board-designated endowment funds	<u>5,916,849</u>	<u>-</u>	<u>-</u>	<u>5,916,849</u>
Transfers of restricted net assets	<u>-</u>	<u>(3,884)</u>	<u>(904,935)</u>	<u>(908,819)</u>
End of year	<u>\$ 4,270,075</u>	<u>\$ -</u>	<u>\$ 6,025,798</u>	<u>\$ 10,295,873</u>

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 and 2008

Note M - Capital Campaign Results

In 2004, the Foundation commenced an Endowment and Capital Campaign intended to:

- Provide endowments for education, priest retirement, seminarians, Diaconate formation, The Institute for Leadership in Ministry, pastoral ministry training and formation, youth and young adult ministry, recruitment and training, social justice education.
- Provide capital for Catholic Charities, Diocesan debt reduction.
- Provide for all expenses relating to the Campaign.
- Provide for excess funds over the Campaign goal to be shared with the Parishes.

All donations, pledges and expenses relating to the Campaign are included in the financial statements of the Foundation. Contributions for the benefit of Catholic Charities, reduction of long term debt of the Diocese of San Jose, clergy retirement endowment and direct parish support are not included in revenues but are shown as liabilities to those entities and are classified as beneficial interest payable in the accompanying balance sheet. In addition contributions for the benefit of the Cathedral Basilica have been classified as a beneficial endowment.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2009 and 2008

Note M - Capital Campaign Results (continued)

As of December 31, 2009, the cumulative campaign results are as follows:

Total amount raised (contributions and pledges)	
Cathedral Basilica endowment	\$ 406,232
Catholic Charities	1,496,737
Clergy retirement endowment	1,067,731
Diocese debt reduction	576,316
Diaconate training endowment	13,133
Education endowment	4,353,955
ILM endowment	24,638
New Parish fund	269,732
Parish outreach endowment	23,741
Parish repair and maintenance endowment	148,970
Parish stewardship endowment	9,081
Pastoral ministry endowment	37,724
Seminarian endowment	2,104,621
Social justice education endowment	13,966
Unrestricted endowment	62,500
Young adult ministry endowment	23,991
Youth ministry staff endowment	29,041
Unrestricted funds	<u>84,517,922</u>
Sub-total	95,180,031
Less: Initial adjustment to fair value	(2,716,446)
Less: Net present value discounts	(2,285,796)
Less: Beneficial interests	(25,814,628)
Less: Beneficial endowments	<u>(406,232)</u>
Total cumulative campaign revenue	<u>\$ 63,956,929</u>
Total cumulative fundraising expenses	<u>\$ 3,048,150</u>
Total cumulative cash received from contributors	<u>\$ 51,143,636</u>
Total cumulative distributions	<u>\$ 24,676,579</u>

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
SUPPLEMENTARY FINANCIAL INFORMATION
For the Years Ended December 31, 2009 and 2008

**INDEPENDENT AUDITORS' REPORT ON
SUPPLEMENTARY FINANCIAL INFORMATION**

To the Board of Directors of
The Catholic Foundation of Santa Clara County
San Jose, California

Our report on our audit of the basic financial statements of The Catholic Foundation of Santa Clara County as of December 31, 2009 and 2008, appears on page one. The audit was made for the purposes of forming an opinion on the basic financial statements taken as a whole.

Schedule of Board Designated and Permanently Restricted Endowments on the following page is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Delucchi, Hawn & Co., LLP

San Jose, California
May 26, 2010

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
SCHEDULE OF BOARD DESIGNATED AND PERMANENTLY RESTRICTED ENDOWMENTS
For the Year Ended December 31, 2009

	Parish Repair	Parish Stewardship	Parish Outreach	Seminarian	Diaconate Training	Education	ILM	Pastoral Ministry	Youth Ministry	Youth Adult Ministry	Social Justice	Cathedral Basilica	Other	Total
Revenues, gains and other support														
Donations, net	\$ (352)	\$ (167)	\$ (356)	\$ (32,391)	\$ (4,685)	\$ 233,700	\$ (1,199)	\$ 1,133	\$ (944)	\$ (1,931)	\$ 328	\$ -	\$ 1,066	\$ 194,202
Investment income, net	24,299	14,050	16,975	41,769	8,215	90,263	22,674	17,081	16,916	16,720	14,035	31,047	1,252	315,296
Net appreciation (depreciation)	135,296	78,979	95,164	213,643	46,116	499,417	126,177	95,904	93,740	93,348	78,216	131,828	5,738	1,693,566
Amounts appropriated for expenditures	(28,800)	(31,105)	(37,612)	(77,000)	(19,000)	(181,000)	(53,000)	(37,210)	(39,000)	(39,000)	(33,000)	(87,000)	-	(662,727)
Transfers to create board-designated endowment funds	920,212	640,069	770,032	21,677	380,143	57,889	1,055,212	745,032	780,032	780,032	655,069	713,395	-	7,518,794
Change in net assets	1,050,655	701,826	844,203	167,698	410,789	700,269	1,149,864	821,940	850,744	849,169	714,648	789,270	8,056	9,059,131
Endowment net assets, beginning of year	587,089	310,984	381,827	1,968,030	186,470	4,311,934	482,266	393,192	366,091	364,577	295,884	608,069	39,460	10,295,873
Endowment net assets, end of year	\$ <u>1,637,744</u>	\$ <u>1,012,810</u>	\$ <u>1,226,030</u>	\$ <u>2,135,728</u>	\$ <u>597,259</u>	\$ <u>5,012,203</u>	\$ <u>1,632,130</u>	\$ <u>1,215,132</u>	\$ <u>1,216,835</u>	\$ <u>1,213,746</u>	\$ <u>1,010,532</u>	\$ <u>1,397,339</u>	\$ <u>47,516</u>	\$ <u>19,355,004</u>
Endowment net assets are classified as follows:														
Unrestricted	\$ (1,338)	\$ (161)	\$ 178	\$ 713	\$ (159)	\$ (1,200)	\$ -	\$ -	\$ -	\$ -	\$ (110)	\$ -	\$ -	\$ (2,077)
Board designated	1,495,635	1,005,506	1,208,214	296,472	588,024	861,238	1,610,938	1,182,214	1,196,340	1,196,340	998,284	1,397,339	-	13,036,544
Temporarily restricted	-	-	457	21,509	-	76,234	23	242	549	339	-	-	1,184	100,537
Permanently restricted	143,447	7,465	17,181	1,817,034	9,394	4,075,931	21,169	32,676	19,946	17,067	12,358	-	46,332	6,220,000
Endowment net assets, end of year	\$ <u>1,637,744</u>	\$ <u>1,012,810</u>	\$ <u>1,226,030</u>	\$ <u>2,135,728</u>	\$ <u>597,259</u>	\$ <u>5,012,203</u>	\$ <u>1,632,130</u>	\$ <u>1,215,132</u>	\$ <u>1,216,835</u>	\$ <u>1,213,746</u>	\$ <u>1,010,532</u>	\$ <u>1,397,339</u>	\$ <u>47,516</u>	\$ <u>19,355,004</u>