

**THE CATHOLIC FOUNDATION OF SANTA CLARA
COUNTY**

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**Financial Statements
For the Years Ended
December 31, 2010
and 2009**

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, 2010 and 2009, 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, 2010 and 2009, 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 24, 2011

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2010	2009
Cash and cash equivalents	\$ 585,401	\$ 5,169,883
Investments	30,600,337	21,618,601
Promises to give, net	8,854,034	18,534,217
Other receivables	47,986	47,986
Property and equipment, net	41,728	32,636
Prepaid expenses	21,393	23,866
	\$ 40,150,879	\$ 45,427,189

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued liabilities	\$ 59,867	\$ 109,078
Grants payable	701,259	1,079,864
Beneficial interests payable, net	3,389,278	4,981,644
Beneficial endowments	421,575	339,708
	4,571,979	6,510,294
Net assets:		
Unrestricted		
Undesignated	6,715,292	13,749,644
Board designated	22,296,374	18,572,238
	29,011,666	32,321,882
Temporarily restricted	308,424	375,013
Permanently restricted	6,258,810	6,220,000
	35,578,900	38,916,895
	\$ 40,150,879	\$ 45,427,189

See Notes to Financial Statements

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
STATEMENTS OF ACTIVITIES

	For the Years Ended											
	December 31, 2010					December 31, 2009						
	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	\$ 1,232,557	\$ -	\$ 1,232,557	\$ 302	\$ 29,672	\$ 1,262,531	\$ 1,958,291	\$ -	\$ 1,958,291	\$ 209	\$ 69,053	\$ 2,027,553
Interest and dividends, net	19,951	501,646	521,597	164,024	-	685,621	77,198	287,304	364,502	128,446	-	492,948
Realized and unrealized gains on investments, net	109,750	1,071,250	1,181,000	369,275	-	1,550,275	897,103	1,597,178	2,494,281	16,907	-	2,511,188
Other income loss	-	-	-	-	-	-	(804)	-	(804)	-	-	(804)
	<u>1,362,258</u>	<u>1,572,896</u>	<u>2,935,154</u>	<u>533,601</u>	<u>29,672</u>	<u>3,498,427</u>	<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>
Other adjustments												
Uncollectible pledges	-	-	-	488	9,138	9,626	-	-	-	(439)	125,149	124,710
Board designations	(2,324,062)	2,324,062	-	-	-	-	(10,528,933)	10,528,933	-	-	-	-
Net assets released from restrictions	-	600,678	600,678	(600,678)	-	-	-	-	-	-	-	-
	<u>(961,804)</u>	<u>4,497,636</u>	<u>3,535,832</u>	<u>(66,589)</u>	<u>38,810</u>	<u>3,508,053</u>	<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>
Grants and expenses												
Grants	3,020,496	773,500	3,793,996	-	-	3,793,996	4,495,658	662,727	5,158,385	-	-	5,158,385
General and administrative	896,541	-	896,541	-	-	896,541	1,072,357	-	1,072,357	-	-	1,072,357
Uncollectible pledges	2,155,511	-	2,155,511	-	-	2,155,511	2,668,320	-	2,668,320	-	-	2,668,320
	<u>6,072,548</u>	<u>773,500</u>	<u>6,846,048</u>	<u>-</u>	<u>-</u>	<u>6,846,048</u>	<u>8,236,335</u>	<u>662,727</u>	<u>8,899,062</u>	<u>-</u>	<u>-</u>	<u>8,899,062</u>
Changes in net assets	(7,034,352)	3,724,136	(3,310,216)	(66,589)	38,810	(3,337,995)	(15,833,480)	11,750,688	(4,082,792)	145,123	194,202	(3,743,467)
Net assets, beginning of year	13,749,644	18,572,238	32,321,882	375,013	6,220,000	38,916,895	29,583,124	6,821,550	36,404,674	229,890	6,025,798	42,660,362
Net assets, end of year	<u>\$ 6,715,292</u>	<u>\$ 22,296,374</u>	<u>\$ 29,011,666</u>	<u>\$ 308,424</u>	<u>\$ 6,258,810</u>	<u>\$ 35,578,900</u>	<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>

See Notes to Financial Statements

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	2010	2009
Cash flows from operating activities:		
Changes in net assets	\$ (3,337,995)	\$ (3,743,467)
Adjustments to reconcile changes in net assets to cash provided by operating activities:		
Net realized and unrealized gains on investments	(1,550,275)	(2,511,188)
Net unamortized discount on promises to give and beneficial interest payable	(764,565)	(1,353,663)
Loss on disposal of property and equipment	-	804
Depreciation	17,156	12,252
Donated marketable securities	(996,119)	(2,124,761)
Contribution restricted for long-term purposes	(98,406)	(52,978)
Changes in assets and liabilities:		
Promises to give, net	10,752,653	13,223,596
Other receivables	-	63,090
Prepaid expenses	2,474	(12,870)
Accounts payable and accrued liabilities	(49,211)	54,406
Grants payable	(378,605)	1,056,364
Beneficial interests payable, net	(1,900,272)	(1,777,637)
Beneficial endowments	63,978	50,422
Net cash provided by operating activities	1,760,813	2,884,370
Cash flows from investing activities:		
Acquisition of property and equipment	(26,248)	-
Proceeds from sales of investments	15,521,494	11,385,291
Purchases of investments	(21,938,947)	(14,743,080)
Net cash used by investing activities	(6,443,701)	(3,357,789)
Cash flows from financing activities:		
Investment in permanent endowment	98,406	52,978
Decrease in cash and cash equivalents	(4,584,482)	(420,441)
Cash and cash equivalents, beginning of year	5,169,883	5,590,324
Cash and cash equivalents, end of year	\$ 585,401	\$ 5,169,883

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for:

Interest	\$ -	\$ -
Income taxes	\$ -	\$ -

See Notes to Financial Statements

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2010 and 2009

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, 2010 and 2009

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 promise 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 promise, 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 \$21,066,521 and \$20,084,564 at December 31, 2010 and 2009, respectively.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2010 and 2009

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 \$36,591 and \$19,435 as of December 31, 2010 and 2009, respectively and depreciation expense was \$17,156 and \$12,252 for the years then ended.

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, 2010 and 2009

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 2007 and beyond remain subject to examination by the Internal Revenue Service. The Foundation's California income tax returns of the tax years 2006 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, 2010 and 2009

Note B - Summary of Significant Accounting Policies (continued)

Fair Value Measurements

Generally accepted accounting principles require the Foundation to classify its financial assets and liabilities based on a valuation method using three levels. Level 1 value is based on quoted prices in active markets for identical securities. Level 2 values are based on significant observable market inputs, such as quoted prices for similar securities and quoted prices in inactive markets. Level 3 values are based on significant unobservable inputs that reflect the Foundation's determination of assumptions that market participants might reasonably use in valuing the securities. The valuation levels are not necessarily an indication of the risk or liquidity associated with the underlying investments.

Subsequent Events

Management has evaluated subsequent events through May 24, 2011 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 - 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, 2010 and 2009 consist of the following:

	<u>2010</u>	<u>2009</u>
Receivable in less than one year	\$ 10,861,130	\$ 13,532,243
Receivable in one to five years	<u>20,631,733</u>	<u>27,731,316</u>
Total unconditional promises to give	31,492,863	41,263,559
Less: unamortized discount on pledges	(1,572,308)	(2,644,778)
Less: allowance for uncollectible pledges	<u>(21,066,521)</u>	<u>(20,084,564)</u>
	<u>\$ 8,854,034</u>	<u>\$ 18,534,217</u>

The unamortized discount on pledges was determined by applying an imputed interest rate of 2.5% to 5% on outstanding pledges.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2010 and 2009

Note D - 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>2010</u>	<u>2009</u>
Corporate stocks	\$ 12,120,682	\$ 7,440,708
Corporate bonds	6,672,152	8,390,405
Mutual funds	2,233,250	279,324
International mutual funds	2,276,499	1,124,544
U.S. Government Securities	<u>7,297,754</u>	<u>4,383,620</u>
Total investments	<u>\$ 30,600,337</u>	<u>\$ 21,618,601</u>

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

	<u>2010</u>	<u>2009</u>
Interest and dividend income	\$ 858,001	\$ 627,573
Net realized and unrealized gains	1,568,171	2,549,253
Investment expenses	<u>(165,457)</u>	<u>(132,019)</u>
	2,260,715	3,044,807
Less net investment income allocable to beneficial endowment	<u>24,819</u>	<u>40,671</u>
Net investment income	<u>\$ 2,235,896</u>	<u>\$ 3,004,136</u>

Note E - Board Designations

The Foundation's Board has designated a portion of the unrestricted net assets. During the year ended December 31, 2010 and 2009 the Board made the following designations:

	<u>2010</u>	<u>2009</u>
Endowments	\$ 898,791	\$ 7,518,794
New parish fund	<u>1,425,271</u>	<u>3,010,139</u>
	<u>\$ 2,324,062</u>	<u>\$ 10,528,933</u>

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2010 and 2009

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:

	2010		2009	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Purpose restrictions				
Parish refurbishment endowment	\$ -	\$ 141,512	\$ -	\$ 143,447
Parish stewardship endowment	-	8,091	-	7,465
Parish outreach endowment	-	18,720	457	17,181
Seminarian endowment	-	1,664,517	21,509	1,817,034
Diaconate training endowment	-	8,905	-	9,394
Education endowment	-	4,268,959	76,234	4,075,931
ILM endowment	-	20,086	23	21,169
Pastoral ministry endowment	-	36,387	242	32,676
Youth ministry staff endowment	-	14,436	549	19,946
Young adult ministry endowment	-	15,915	339	17,067
Social justice endowment	-	17,537	-	12,358
New parish fund	302,617	-	274,476	-
Other endowments	5,807	43,745	1,184	46,332
	\$ 308,424	\$ 6,258,810	\$ 375,013	\$ 6,220,000

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, 2010 and 2009 the beneficial interests payable were as follows:

	2010	2009
Catholic Charities	\$ 326,500	\$ 485,343
Clergy retirement	533,499	627,324
Diocese debt reduction	10,230	33,325
Parish support	2,801,362	4,614,238
	3,671,591	5,760,230
Less: unamortized discount on pledges	(42,648)	(350,554)
Less: allowance for uncollectible pledges	(239,665)	(428,032)
	\$ 3,389,278	\$ 4,981,644

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2010 and 2009

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. The following table summarizes the activity in such funds:

	<u>2010</u>	<u>2009</u>
Beginning balance	\$ 419,148	\$ 334,551
Contribution	98,406	52,978
Uncollectible pledges	(3,000)	(5,000)
Net investment income	24,820	40,671
Distributions	<u>-</u>	<u>(4,052)</u>
	539,374	419,148
Less: unamortized discount on pledges	(6,090)	(7,213)
Less: allowance for uncollectible pledges	<u>(111,709)</u>	<u>(72,227)</u>
Ending Balance	<u>\$ 421,575</u>	<u>\$ 339,708</u>

The Cathedral Basilica is the sole beneficiary of the beneficial endowments.

Note I - 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, 2010 and 2009 was \$49,562 and \$48,366, respectively. The future minimum annual lease payments required under the lease agreement are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2011	<u>\$ 49,116</u>

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2010 and 2009

Note J - 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 a real 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, 2010 and 2009

Note J - 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 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. There were no deficiencies as of December 31, 2010 and the deficiencies amounted to \$2,077 as of December 31, 2009.

Reallocation

The Foundation reallocated prior designated endowments to other funds to comply with the initial goals of the campaign. Total reallocated funds for Education Fund and Seminarian Fund totaled \$900,763 and \$309,333, respectively for the year ended December 31, 2010.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2010 and 2009

Note J - Endowments (continued)

Endowment net asset composition by type of funds as of December 31, 2010 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ 5,807	\$ 6,159,103	\$ 6,164,910
Board-designated endowment funds	<u>14,841,377</u>	<u>-</u>	<u>-</u>	<u>14,841,377</u>
Total funds	<u>\$ 14,841,377</u>	<u>\$ 5,807</u>	<u>\$ 6,159,103</u>	<u>\$ 21,006,287</u>

Changes in endowment net assets for the year ended December 31, 2010 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Beginning of year	\$ 13,034,467	\$ 100,537	\$ 5,763,262	\$ 18,898,266
Contributions	-	-	395,841	395,841
Investment income, net	348,989	153,732	-	502,721
Net appreciation	731,951	352,216	-	1,084,167
Amounts appropriated for expenditure	(172,822)	(600,678)	-	(773,500)
Transfers to create board-designated endowment funds	<u>898,792</u>	<u>-</u>	<u>-</u>	<u>898,792</u>
End of year	<u>\$ 14,841,377</u>	<u>\$ 5,807</u>	<u>\$ 6,159,103</u>	<u>\$ 21,006,287</u>

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	\$ 5,763,262	\$ 5,861,722
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>\$ 5,763,262</u>	<u>\$ 18,898,266</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	\$ -	\$ 4,920,811	\$ 9,190,886
Contributions	-	-	842,451	842,451
Investment income, net	308,550	6,746	-	315,296
Net appreciation	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>
Transfers of restricted net assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ 13,034,467</u>	<u>\$ 100,537</u>	<u>\$ 5,763,262</u>	<u>\$ 18,898,266</u>

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
SUPPLEMENTARY FINANCIAL INFORMATION
For the Years Ended December 31, 2010 and 2009

**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, 2010 and 2009, 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 24, 2011

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
SCHEDULE OF BOARD DESIGNATED AND PERMANENTLY RESTRICTED ENDOWMENTS
For the Year Ended December 31, 2010

	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	\$ 1,166	\$ 886	\$ 3,006	\$ 52,623	\$ 577	\$ 327,822	\$ 337	\$ 4,228	\$ 802	\$ 2,492	\$ 1,902	\$ -	\$ -	\$ 395,841
Investment income, net	44,485	27,381	32,900	48,301	16,391	121,874	44,624	32,826	33,135	33,103	27,739	38,588	1,374	502,721
Net appreciation	96,105	57,356	69,239	100,239	35,493	270,094	96,531	68,986	71,692	71,621	59,729	83,831	3,251	1,084,167
Amounts appropriated for expenditures	(72,000)	(40,500)	(48,500)	(68,000)	(26,000)	(173,000)	(72,000)	(48,500)	(54,000)	(54,000)	(45,000)	(72,000)	-	(773,500)
Transfers to create board-designated endowment funds	249,011	177,520	195,025	(309,333)	115,963	(900,763)	279,113	220,025	209,336	209,336	174,446	279,113	-	898,792
Change in net assets	318,767	222,643	251,670	(176,170)	142,424	(353,973)	348,605	277,565	260,965	262,552	218,816	329,532	4,625	2,108,021
Endowment net assets, beginning of year	1,633,728	1,011,635	1,221,260	1,919,218	594,532	4,805,433	1,630,427	1,211,469	1,210,221	1,208,712	1,009,363	1,397,339	44,929	18,898,266
Endowment net assets, end of year	\$ 1,952,495	\$ 1,234,278	\$ 1,472,930	\$ 1,743,048	\$ 736,956	\$ 4,451,460	\$ 1,979,032	\$ 1,489,034	\$ 1,471,186	\$ 1,471,264	\$ 1,228,179	\$ 1,726,871	\$ 49,554	\$ 21,006,287
Endowment net assets are classified as follows:														
Board designated	\$ 1,811,720	\$ 1,226,923	\$ 1,457,335	\$ 89,187	\$ 729,762	\$ 255,679	\$ 1,959,229	\$ 1,455,792	\$ 1,457,052	\$ 1,456,739	\$ 1,215,088	\$ 1,726,871	\$ -	\$ 14,841,377
Temporarily restricted	-	-	-	-	-	-	-	-	-	-	-	-	5,807	5,807
Permanently restricted	140,775	7,355	15,595	1,653,861	7,194	4,195,781	19,803	33,242	14,134	14,525	13,091	-	43,747	6,159,103
Endowment net assets, end of year	\$ 1,952,495	\$ 1,234,278	\$ 1,472,930	\$ 1,743,048	\$ 736,956	\$ 4,451,460	\$ 1,979,032	\$ 1,489,034	\$ 1,471,186	\$ 1,471,264	\$ 1,228,179	\$ 1,726,871	\$ 49,554	\$ 21,006,287