

**THE CATHOLIC FOUNDATION OF SANTA CLARA
COUNTY**

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**Financial Statements
For the Years Ended
December 31, 2011
and 2010**

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, 2011 and 2010, 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, 2011 and 2010, 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
June 6, 2012

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2011	2010
Cash and cash equivalents	\$ 948,590	\$ 529,486
Investments	27,923,413	30,656,252
Promises to give, net	2,499,182	8,854,034
Prepaid expenses	12,030	17,293
Loan receivable	929,793	-
Other receivables	58,678	47,986
Property and equipment, net	22,989	41,728
Deposit	4,100	4,100
	\$ 32,398,775	\$ 40,150,879

LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable and accrued liabilities	\$ 86,348	\$ 59,867
Grants payable	436,188	701,259
Beneficial interests payable, net	1,192,026	3,389,278
Beneficial endowments	580,579	421,575
Total liabilities	2,295,141	4,571,979

Net assets:

Unrestricted		
Undesignated	3,002,745	6,715,292
Board designated	21,087,975	22,296,374
	24,090,720	29,011,666
Temporarily restricted	-	308,424
Permanently restricted	6,012,914	6,258,810
	30,103,634	35,578,900
	\$ 32,398,775	\$ 40,150,879

See Notes to Financial Statements

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
STATEMENTS OF ACTIVITIES

	For the Years Ended											
	December 31, 2011					December 31, 2010						
	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	\$ 1,526,119	\$ -	\$ 1,526,119	\$ 466	\$ 17,450	\$ 1,544,035	\$ 1,232,557	\$ -	\$ 1,232,557	\$ 302	\$ 29,672	\$ 1,262,531
Interest and dividends, net	36,306	592,116	628,422	177,153	-	805,575	19,951	501,646	521,597	164,024	-	685,621
Realized and unrealized gains on investments, net	(22,879)	(612,092)	(634,971)	(176,239)	-	(811,210)	109,750	1,071,250	1,181,000	369,275	-	1,550,275
	1,539,546	(19,976)	1,519,570	1,380	17,450	1,538,400	1,362,258	1,572,896	2,935,154	533,601	29,672	3,498,427
Other adjustments												
Uncollectible pledges	-	-	-	1,406	(16,046)	(14,640)	-	-	-	488	9,138	9,626
Board designations	(2,090,000)	2,090,000	-	-	-	-	(2,324,062)	2,324,062	-	-	-	-
Net assets released from restrictions	558,510	-	558,510	(311,210)	(247,300)	-	-	600,678	600,678	(600,678)	-	-
	8,056	2,070,024	2,078,080	(308,424)	(245,896)	1,523,760	(961,804)	4,497,636	3,535,832	(66,589)	38,810	3,508,053
Grants and expenses												
Grants	1,790,766	3,277,223	5,067,989	-	-	5,067,989	3,020,496	773,500	3,793,996	-	-	3,793,996
General and administrative	650,096	1,200	651,296	-	-	651,296	896,541	-	896,541	-	-	896,541
Development expenses	31,331	-	31,331	-	-	31,331	-	-	-	-	-	-
Uncollectible pledges	1,248,410	-	1,248,410	-	-	1,248,410	2,155,511	-	2,155,511	-	-	2,155,511
Total expenses	3,720,603	3,278,423	6,999,026	-	-	6,999,026	6,072,548	773,500	6,846,048	-	-	6,846,048
Changes in net assets	(3,712,547)	(1,208,399)	(4,920,946)	(308,424)	(245,896)	(5,475,266)	(7,034,352)	3,724,136	(3,310,216)	(66,589)	38,810	(3,337,995)
Net assets, beginning of year	6,715,292	22,296,374	29,011,666	308,424	6,258,810	35,578,900	13,749,644	18,572,238	32,321,882	375,013	6,220,000	38,916,895
Net assets, end of year	<u>\$ 3,002,745</u>	<u>\$ 21,087,975</u>	<u>\$ 24,090,720</u>	<u>\$ -</u>	<u>\$ 6,012,914</u>	<u>\$ 30,103,634</u>	<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>

See Notes to Financial Statements

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	2011	2010
Cash flows from operating activities:		
Changes in net assets	\$ (5,475,266)	\$ (3,337,995)
Adjustments to reconcile changes in net assets to cash provided (used) by operating activities:		
Net realized and unrealized (gains) losses on investments	811,210	(1,550,275)
Net unamortized discount on promises to give and beneficial interest payable	(1,011,872)	(764,565)
Depreciation	18,739	17,156
Donated marketable securities	(276,249)	(996,119)
Contribution restricted for long-term purposes	(149,958)	(98,406)
Changes in assets and liabilities:		
Promises to give, net	7,398,455	10,752,653
Prepaid expenses	5,263	2,474
Other receivable	(10,692)	-
Accounts payable and accrued liabilities	26,481	(49,211)
Grants payable	(265,071)	(378,605)
Beneficial interests payable, net	(2,228,984)	(1,900,272)
Beneficial endowments	146,765	8,063
Net cash provided (used) by operating activities	(1,011,179)	1,704,898
Cash flows from investing activities:		
Acquisition of property and equipment	-	(26,248)
Advance on note receivable	(929,792)	-
Proceeds from sale of investments	11,112,728	15,521,494
Purchase of investments	(8,902,611)	(21,938,947)
Net cash provided (used) by investing activities	1,280,325	(6,443,701)
Cash flows from financing activities:		
Investment in permanent endowment	149,958	98,406
Increase (decrease) in cash and cash equivalents	419,104	(4,640,397)
Cash and cash equivalents, beginning of year	529,486	5,169,883
Cash and cash equivalents, end of year	\$ 948,590	\$ 529,486

See Notes to Financial Statements

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2011 and 2010

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
- Provide funding for new parishes

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, 2011 and 2010

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 \$617,523 and \$21,066,521 at December 31, 2011 and 2010, respectively.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2011 and 2010

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 \$55,330 and \$36,591 as of December 31, 2011 and 2010, respectively and depreciation expense was \$18,739 and \$17,156 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, 2011 and 2010

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.

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.

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 2008 and beyond remain subject to examination by the Internal Revenue Service. The Foundation's California income tax returns of the tax years 2007 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, development and supporting services.

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.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2011 and 2010

Note B - Summary of Significant Accounting Policies (continued)

Subsequent Events

Management has evaluated subsequent events through June 6, 2012, 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, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Receivable in less than one year	\$ 1,683,292	\$ 10,861,130
Receivable in one to five years	<u>1,500,366</u>	<u>20,631,733</u>
Total unconditional promises to give	3,183,658	31,492,863
Less: unamortized discount on pledges	(66,953)	(1,572,308)
Less: allowance for uncollectible pledges	<u>(617,523)</u>	<u>(21,066,521)</u>
	<u>\$ 2,499,182</u>	<u>\$ 8,854,034</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, 2011 and 2010

Note D - Investments

In accordance with authoritative guidelines, 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>2011</u>	<u>2010</u>
Corporate stocks	\$ 12,636,936	\$ 12,120,682
Corporate bonds	3,972,198	6,672,152
Mutual funds	4,078,352	2,289,165
International mutual funds	2,051,465	2,276,499
U.S. Government Securities	<u>5,184,462</u>	<u>7,294,754</u>
Total investments	<u>\$ 27,923,413</u>	<u>\$ 30,656,252</u>
Investments-unrestricted & temporarily restricted	\$ 21,349,204	\$ 24,075,574
Investments-permanently restricted	5,993,630	6,159,103
Investments-beneficial endowments	<u>580,579</u>	<u>421,575</u>
	<u>\$ 27,923,413</u>	<u>\$ 30,656,252</u>
Investment income for the years ended December 31, consisted of the following:		
	<u>2011</u>	<u>2010</u>
Interest and dividend income	\$ 977,617	\$ 858,001
Net realized and unrealized gains (losses)	(804,362)	1,568,171
Investment expenses	<u>(166,260)</u>	<u>(165,457)</u>
	6,995	2,260,715
Less net investment income allocable to beneficial endowment	<u>12,630</u>	<u>24,819</u>
Net investment income (loss)	<u>\$ (5,635)</u>	<u>\$ 2,235,896</u>

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2011 and 2010

Note E - 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	2011		2010	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Parish refurbishment endowment	\$ -	\$ 137,527	\$ -	\$ 141,512
Parish stewardship endowment	-	7,849	-	8,091
Parish outreach endowment	-	35,555	-	18,720
Seminarian endowment	-	1,607,005	-	1,664,517
Diaconate training endowment	-	8,459	-	8,905
Education endowment	-	4,119,587	-	4,268,959
ILM endowment	-	19,509	-	20,086
Pastoral ministry endowment	-	35,304	-	36,387
Youth ministry staff endowment	-	14,166	-	14,436
Young adult ministry endowment	-	16,370	-	15,915
Social justice endowment	-	11,583	-	17,537
New parish fund	-	-	302,617	-
Other endowments	-	-	5,807	43,745
	<u>\$ -</u>	<u>\$ 6,012,914</u>	<u>\$ 308,424</u>	<u>\$ 6,258,810</u>

Note F - 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, 2011 and 2010 the beneficial interests payable were as follows:

	2011	2010
Catholic Charities	\$ 244,432	\$ 326,500
Clergy retirement	419,216	533,499
Diocese debt reduction	7,440	10,230
Parish support	<u>1,114,943</u>	<u>2,801,362</u>
	1,786,031	3,671,591
Less: unamortized discount on pledges	(10,917)	(42,648)
Less: allowance for uncollectible pledges	<u>(583,088)</u>	<u>(239,665)</u>
	<u>\$ 1,192,026</u>	<u>\$ 3,389,278</u>

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2011 and 2010

Note G - 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>2011</u>	<u>2010</u>
Beginning balance	\$ 539,374	\$ 419,148
Contribution	149,958	98,406
Uncollectible pledges	-	(3,000)
Net investment income	12,631	24,820
Distributions	<u>-</u>	<u>-</u>
	701,963	539,374
Less: unamortized discount on pledges	(2,356)	(6,090)
Less: allowance for uncollectible pledges	<u>(119,028)</u>	<u>(111,709)</u>
Ending Balance	<u>\$ 580,579</u>	<u>\$ 421,575</u>

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

Note H - Commitments

The Foundation leases its office under a three year operating lease agreement which expired on December 31, 2011. The total rent expense for the years ended December 31, 2011 and 2010 was \$47,929 and \$49,562, respectively. The Foundation entered into a new office lease agreement effective January 1, 2012 which will expire in February 2015. The future minimum annual lease payments required under the lease agreement are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2012	\$ 17,000
2013	21,650
2014	23,150
2015	<u>3,900</u>
	<u>\$ 65,700</u>

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2011 and 2010

Note I - Board Designations

The Foundation's Board has designated a portion of the unrestricted net assets. During the years ended December 31, 2011 and 2010 the Board made the following designations:

	<u>2011</u>	<u>2010</u>
Endowments	\$ 729,674	\$ 898,791
New parish fund	<u>1,360,326</u>	<u>1,425,271</u>
	<u>\$ 2,090,000</u>	<u>\$ 2,324,062</u>

Note J - Loan Receivable

The Foundation along with the Roman Catholic Bishop of San Jose (Diocese) agreed to advance funds to help establish a new parish in San Jose, California. The Foundation and Diocese will advance up to \$1.6 million each for the purchase and refurbishment of the parish. The co-lending agreement provides the Foundation priority for all repayments. The loan is stated at unpaid principal balances and bears interest at 3% per annum and is secured by a first deed of trust. The total principal and accrued interest outstanding are due on August 31, 2016. Management believes the full amount to be collectible at December 31, 2011, thus no allowance for loan losses has been recorded.

The parish repaid the initial advance of \$929,793 with accrued interest on March 21, 2012. An additional advance of \$512,693 was extended in April, 2012 for building restoration and improvements under the same agreement.

Note K - Endowments

The Foundation's endowments consist of approximately 12 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:

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2011 and 2010

Note K - Endowments (continued)

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.

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.

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 deficiency amounted to \$1,812 as of December 31, 2011 and there were no deficiency as of December 31, 2010.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2011 and 2010

Note K - Endowments (continued)

Reallocation

The Foundation reallocated prior designated endowments to other funds to comply with the initial goals of the campaign. Total reallocated funds for the Education Fund, Seminarian Fund, and Cathedral Basilica Fund totaled \$92,667, \$265,658 and \$140,000, respectively for the year ended December 31, 2011.

The Foundation reallocated contributions originally classified as “other endowments” during the year to comply with the donors’ intent. The Foundation also reclassified the Parish Outreach Fund and Social Justice Fund balance to reflect changes in donors’ intent. This reallocation resulted in total reclassification of \$41,008 to unrestricted assets and increase in Parish Outreach Fund of \$10,544 and decrease in Social Justice Fund of \$1,500.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2011 and 2010

Note K - Endowments (continued)

Endowment net asset composition by type of funds as of December 31, 2011 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ (1,812)	\$ -	\$ 5,993,630	\$ 5,991,818
Board-designated endowment funds	<u>15,037,844</u>	<u>-</u>	<u>-</u>	<u>15,037,844</u>
Total funds	<u>\$ 15,036,032</u>	<u>\$ -</u>	<u>\$ 5,993,630</u>	<u>\$ 21,029,662</u>

Changes in endowment net assets for the year ended December 31, 2011 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Beginning of year	\$ 14,841,377	\$ 5,807	\$ 6,159,103	\$ 21,006,287
Contributions	-	-	81,827	81,827
Investment income, net	402,615	167,153	-	569,768
Net depreciation	(385,787)	(166,375)	-	(552,162)
Amounts appropriated for expenditure	(551,848)	(281)	(212,596)	(764,725)
Changes in donors restriction	-	(6,304)	(34,704)	(41,008)
Transfers to create board-designated endowment funds	<u>729,675</u>	<u>-</u>	<u>-</u>	<u>729,675</u>
End of year	<u>\$ 15,036,032</u>	<u>\$ -</u>	<u>\$ 5,993,630</u>	<u>\$ 21,029,662</u>

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>

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
SUPPLEMENTARY FINANCIAL INFORMATION
For the Year Ended December 31, 2011

**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, 2011 and 2010, 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
June 6, 2012

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
SCHEDULE OF BOARD DESIGNATED AND PERMANENTLY RESTRICTED ENDOWMENTS
For the Year Ended December 31, 2011

	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	\$ 1,353	\$ 583	\$ 7,446	\$ 5,799	\$ 501	\$ 60,880	\$ 360	\$ 2,491	\$ 525	\$ 1,563	\$ 325	\$ -	\$ -	\$ 81,826
Investment income, net	55,218	33,841	40,770	45,050	20,589	115,287	54,951	40,738	41,014	41,017	34,141	45,874	1,279	569,769
Net depreciation	(57,350)	(32,393)	(39,970)	(41,361)	(20,761)	(106,290)	(55,358)	(39,083)	(41,218)	(41,206)	(33,796)	(42,595)	(781)	(552,162)
Amounts appropriated for expenditures	(73,000)	(49,000)	(59,000)	(57,000)	(27,000)	(146,000)	(72,000)	(55,725)	(54,000)	(54,000)	(45,000)	(73,000)	-	(764,725)
Changes in donor restriction	-	-	10,544	-	-	-	-	-	-	-	(1,500)	-	(50,052)	(41,008)
Transfers to create board-designated endowment funds	211,000	121,000	143,000	(92,667)	68,000	(265,658)	166,000	141,000	137,000	136,000	105,000	(140,000)	-	729,675
Change in net assets	137,221	74,031	102,790	(140,179)	41,329	(341,781)	93,953	89,421	83,321	83,374	59,170	(209,721)	(49,554)	23,375
Endowment net assets, beginning 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, end of year	<u>\$ 2,089,716</u>	<u>\$ 1,308,309</u>	<u>\$ 1,575,720</u>	<u>\$ 1,602,869</u>	<u>\$ 778,285</u>	<u>\$ 4,109,679</u>	<u>\$ 2,072,985</u>	<u>\$ 1,578,455</u>	<u>\$ 1,554,507</u>	<u>\$ 1,554,638</u>	<u>\$ 1,287,349</u>	<u>\$ 1,517,150</u>	<u>\$ -</u>	<u>\$ 21,029,662</u>
Endowment net assets are classified as follows:														
Unrestricted	\$ (14)	\$ (25)	\$ (709)	\$ -	\$ (14)	\$ (982)	\$ (6)	\$ (34)	\$ (3)	\$ (25)	\$ -	\$ -	\$ -	\$ (1,812)
Board designated	1,952,393	1,300,675	1,544,024	-	770,864	-	2,053,542	1,543,974	1,540,343	1,539,113	1,275,766	1,517,150	-	15,037,844
Temporarily restricted	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Permanently restricted	137,337	7,659	32,405	1,602,869	7,435	4,110,661	19,449	34,515	14,167	15,550	11,583	-	-	5,993,630
Endowment net assets, end of year	<u>\$ 2,089,716</u>	<u>\$ 1,308,309</u>	<u>\$ 1,575,720</u>	<u>\$ 1,602,869</u>	<u>\$ 778,285</u>	<u>\$ 4,109,679</u>	<u>\$ 2,072,985</u>	<u>\$ 1,578,455</u>	<u>\$ 1,554,507</u>	<u>\$ 1,554,638</u>	<u>\$ 1,287,349</u>	<u>\$ 1,517,150</u>	<u>\$ -</u>	<u>\$ 21,029,662</u>