

**The Catholic  
Community Foundation  
of Santa Clara County**

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Financial Statements  
For the Years Ended  
December 31, 2016 and 2015



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## **INDEPENDENT AUDITOR'S REPORT**

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

We have audited the accompanying statements of The Catholic Community Foundation of Santa Clara County (a non-profit organization), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of The Catholic Community Foundation of Santa Clara County as of December 31, 2016 and 2015, and the changes in net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

*Delucchi Hawn, LLP*

San Jose, California  
July 5, 2017

**THE CATHOLIC COMMUNITY FOUNDATION OF  
SANTA CLARA COUNTY**  
STATEMENTS OF FINANCIAL POSITION

	<u>Assets</u>	
	December 31,	
	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 240,774	\$ 507,606
Investments	43,104,797	40,127,711
Promises to give, net	1,047,035	1,630,029
Prepaid expenses	1,640	590
Loan receivable	181,831	379,520
Other receivables	61,107	53,856
Property and equipment, net	-	11,367
Deposit	4,100	4,100
	<u>\$ 44,641,284</u>	<u>\$ 42,714,779</u>

**Liabilities and Net Assets**

Liabilities:

Accounts payable and accrued liabilities	\$ 76,042	\$ 102,599
Beneficial interests payable, net	74,563	120,159
Agency funds	93,467	86,405
Beneficial endowments	8,705,391	8,269,166
Total liabilities	<u>8,949,463</u>	<u>8,578,329</u>

Net assets:

Unrestricted		
Undesignated	3,957,095	3,081,131
Board designated	22,668,463	22,823,901
	<u>26,625,558</u>	<u>25,905,032</u>
Temporarily restricted	318,531	124,297
Permanently restricted	8,747,732	8,107,121
	<u>35,691,821</u>	<u>34,136,450</u>
Total liabilities and net assets	<u>\$ 44,641,284</u>	<u>\$ 42,714,779</u>

See Notes to Financial Statements

**THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY**  
STATEMENTS OF ACTIVITIES

	For the Years Ended											
	December 31, 2016					December 31, 2015						
	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	\$ 1,302,681	\$ -	\$ 1,302,681	\$ 1,472	\$ 640,611	\$ 1,944,764	\$ 810,586	\$ -	\$ 810,586	\$ 1,449	\$ 1,612,510	\$ 2,424,545
Interest and dividends, net	381,018	41,789	422,807	11,420	-	434,227	383,334	(23,784)	359,550	(11,539)	-	348,011
Realized and unrealized gains (losses) on investments, net	200,512	1,680,289	1,880,801	500,801	-	2,381,602	(191,886)	(1,705,609)	(1,897,495)	(454,809)	-	(2,352,304)
Special event, revenue	16,000	-	16,000	-	-	16,000	470,253	-	470,253	-	-	470,253
Special event, expense	(13,219)	-	(13,219)	-	-	(13,219)	(98,419)	-	(98,419)	-	-	(98,419)
Other income	1,571	258	1,829	77	-	1,906	6,150	544	6,694	152	-	6,846
	<u>1,888,563</u>	<u>1,722,336</u>	<u>3,610,899</u>	<u>513,770</u>	<u>640,611</u>	<u>4,765,280</u>	<u>1,380,018</u>	<u>(1,728,849)</u>	<u>(348,831)</u>	<u>(464,747)</u>	<u>1,612,510</u>	<u>798,932</u>
Other adjustments												
Board designations	-	-	-	-	-	-	(503,943)	503,943	-	-	-	-
Net assets released from restrictions	319,536	-	319,536	(319,536)	-	-	231,435	-	231,435	(231,435)	-	-
	<u>2,208,099</u>	<u>1,722,336</u>	<u>3,930,435</u>	<u>194,234</u>	<u>640,611</u>	<u>4,765,280</u>	<u>1,107,510</u>	<u>(1,224,906)</u>	<u>(117,396)</u>	<u>(696,182)</u>	<u>1,612,510</u>	<u>798,932</u>
Grants and expenses												
Grants	511,368	1,877,774	2,389,142	-	-	2,389,142	668,493	711,514	1,380,007	-	-	1,380,007
General and administrative	460,131	-	460,131	-	-	460,131	497,028	-	497,028	-	-	497,028
Development expenses	360,636	-	360,636	-	-	360,636	344,511	-	344,511	-	-	344,511
Total expenses	<u>1,332,135</u>	<u>1,877,774</u>	<u>3,209,909</u>	<u>-</u>	<u>-</u>	<u>3,209,909</u>	<u>1,510,032</u>	<u>711,514</u>	<u>2,221,546</u>	<u>-</u>	<u>-</u>	<u>2,221,546</u>
Change in net assets	875,964	(155,438)	720,526	194,234	640,611	1,555,371	(402,522)	(1,936,420)	(2,338,942)	(696,182)	1,612,510	(1,422,614)
Net assets, beginning of year	<u>3,081,131</u>	<u>22,823,901</u>	<u>25,905,032</u>	<u>124,297</u>	<u>8,107,121</u>	<u>34,136,450</u>	<u>3,483,653</u>	<u>24,760,321</u>	<u>28,243,974</u>	<u>820,479</u>	<u>6,494,611</u>	<u>35,559,064</u>
Net assets, end of year	<u>\$ 3,957,095</u>	<u>\$ 22,668,463</u>	<u>\$ 26,625,558</u>	<u>\$ 318,531</u>	<u>\$ 8,747,732</u>	<u>\$ 35,691,821</u>	<u>\$ 3,081,131</u>	<u>\$ 22,823,901</u>	<u>\$ 25,905,032</u>	<u>\$ 124,297</u>	<u>\$ 8,107,121</u>	<u>\$ 34,136,450</u>

See Notes to Financial Statements

**THE CATHOLIC COMMUNITY FOUNDATION OF  
SANTA CLARA COUNTY  
STATEMENTS OF CASH FLOWS**

	<u>For the Years Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
Cash flows from operating activities:		
Change in net assets	\$ 1,555,371	\$ (1,422,614)
Adjustments to reconcile change in net assets to cash used by operating activities:		
Net realized and unrealized (gains) losses on investments	(2,381,602)	2,352,304
Net unamortized discount on promises to give and beneficial interests payable	(17,602)	6,247
Depreciation	11,367	12,572
Contributions restricted for long-term purposes	(1,129,847)	(611,926)
Changes in assets and liabilities:		
Promises to give, net	605,000	(934,501)
Prepaid expenses	(1,050)	43,073
Other receivable	(7,251)	(1,584)
Accounts payable and accrued liabilities	(26,557)	17,971
Deferred revenue	-	(391,603)
Beneficial interests payable, net	(50,000)	(50,000)
Agency funds, net	7,062	86,405
Beneficial endowments, net	(102,960)	(181,647)
Net cash used by operating activities	<u>(1,538,069)</u>	<u>(1,075,303)</u>
Cash flows from investing activities:		
Payment received on loan receivable	197,689	191,853
Proceeds from sale of investments	11,944,426	11,646,399
Purchase of investments	<u>(12,000,725)</u>	<u>(11,626,406)</u>
Net cash provided by investing activities	<u>141,390</u>	<u>211,846</u>
Cash flows from financing activities:		
Contributions restricted for long-term purposes	<u>1,129,847</u>	<u>611,926</u>
Decrease in cash and cash equivalents	(266,832)	(251,531)
Cash and cash equivalents, beginning of year	<u>507,606</u>	<u>759,137</u>
Cash and cash equivalents, end of year	<u>\$ 240,774</u>	<u>\$ 507,606</u>

See Notes to Financial Statements

**THE CATHOLIC COMMUNITY FOUNDATION OF  
SANTA CLARA COUNTY**  
STATEMENTS OF CASH FLOWS (CONTINUED)

	<u>For the Years Ended December 31,</u>	
	<u>2016</u>	<u>2015</u>
<u>Cash paid during the year for:</u>		
Unrelated business income tax	\$ <u>          -</u>	\$ <u>      4,031</u>
<u>Supplemental disclosures of non-cash investing and financing transactions:</u>		
Investments received for beneficial endowments	\$ <u>     77,166</u>	\$ <u>          -</u>

See Notes to Financial Statements

# THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

### **Note A - Organization**

#### Nature of Activities

The Catholic Community Foundation of Santa Clara County (the “Foundation”) was incorporated in March 2004 as a non-profit public benefit corporation. In 2004, the Rooted in Faith campaign was initiated to financially support the educational, spiritual, and social needs of the Catholic community of Santa Clara County by raising a base level of endowment and capital funds.

In 2012, with the conclusion of the Rooted in Faith campaign, the Board of Directors voted to adopt a community foundation construct to acquire a broadened set of funds aimed at strengthening the Catholic ministry in the Santa Clara County.

The Foundation develops, acquires, manages, and grants from endowed funds. These funds are designed to provide permanent financial support to parish, educational, religious, charitable, and other organizations comprising the Catholic Community of the county. In addition, we offer donor advised funds, tax advantaged vehicles allowing generous donors to execute their philanthropic strategy through the Foundation, granting to a broad range of non-profits whose work is in line with Catholic social teaching.

### **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 below under “Categories of Net Assets.”

#### Community Foundation Construct

The Community Foundation Construct project began in 2012 and all contributions and expenses are reflected as part of overall operations of the Foundation in the accompanying financial statements.

Beginning in January 2013, the Foundation charges quarterly administrative fees to certain invested funds as reimbursement for administrative and investment costs. These fees are charged to the funds based on market value of investments held for those funds. Annual administrative fees range from 0.50% to 2.00%.



# THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

### **Note B - Summary of Significant Accounting Policies (Continued)**

#### 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.

#### 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 endowments, board-designated endowments and donor advised funds. Realized and unrealized gains and losses from investments in the master investment accounts are allocated monthly to the individual funds based on the relationship of the market value of each fund 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 uncollectable 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. There was no allowance at December 31, 2016 and 2015.

Two donors comprised of 97% and 95% of promises to give at December 31, 2016 and 2015, respectively.

# THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

### 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. Asset lives range from three to five 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 \$102,292 and \$90,925 as of December 31, 2016 and 2015, respectively and depreciation expense was \$11,367 and \$12,572 for the years then ended.

#### Beneficial Interests Payable

As part of its mission, the Foundation receives donations from various donors solely to support 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's 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 for 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.

#### Restricted and Unrestricted Support

Contributions that are restricted by the donor 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.

# THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

### 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.

#### Fair Value of Financial Instruments

At December 31, 2016 and 2015, the carrying value of cash and cash equivalents, accounts payable and accrued expenses approximate fair value due to the short term nature of these investments. The following methods and assumptions were used to estimate the fair value of each class of financial instruments:

*Investments* – Investments, other than cash and cash equivalents, are carried at fair value. Publicly traded investments are valued at fair value based on quoted market prices. A substantial portion of the fair value measurements included within investments is provided to the Foundation by third parties and is not calculated by the Foundation. These valuations are based on the fair value based on quoted market prices, financial models of hypothetical transactions, or net asset value as determined by the fund manager. Some valuations may also be determined and approved by the managers or valuation committees of the funds in which the Foundation invests. The fair value assigned to a particular security by the fund management does not necessarily reflect the amount that would be realized. In addition, in light of the judgment involved in fair value decisions, there can be no assurance that a fair value assigned to a particular security by the fund management is accurate.

*Beneficial Endowments* – Carrying value, which approximates fair value, of obligations for beneficial endowments is based on the related fair values of investments discussed above and the beneficiaries' shares of the related investment assets. See Note I.

#### Agency Funds

The Foundation manages and invests funds as an agent for a service organization within Santa Clara County Catholic Community. Deposits and withdrawals are made at the direction of the respective organization. Withdrawals are made no more than twice a year. Either party may cancel an agency agreement at any time with a 30 day written notice.

# THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

### **Note B - Summary of Significant Accounting Policies (Continued)**

#### Income Taxes

The Foundation is a not-for-profit corporation exempt from Federal income taxes under Internal Revenue Code Section 501(c)(3), except as to unrelated business income. Additionally, the Foundation is exempt from state income taxes under similar tax regulations. The Foundation generates unrelated business taxable income through some of the investments they hold. There was no unrelated business income tax expense for the year ending December 31, 2016 and \$4,031 was recorded for the year ending December 31, 2015.

The Foundation files income tax returns in the U.S. Federal jurisdiction and the state of California. The Foundation's Federal income tax returns for tax years 2013 and subsequent years remain subject to examination by the Internal Revenue Service. The Foundation's California income tax returns of the tax years 2012 and subsequent years 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.

#### Concentrations

Cash, cash equivalents, and investments are exposed to interest rate, market, and credit risks. The Foundation maintains its cash and cash equivalents in various bank deposit accounts that, at times, exceeded amounts insured by the federally insured limits. To minimize risk, the Foundation's cash accounts are placed with high credit quality financial institutions and the Foundation's investment portfolio is diversified among a variety of asset categories, held by several investment managers.

Contributions from two individuals comprised approximately 41% of donations during the year ended December 31, 2016, and contributions from one individual comprised approximately 62% of the donations during the year ended December 31, 2015.

#### Subsequent Events

Management has evaluated subsequent events through July 5, 2017, 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.

**THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

For the Years Ended December 31, 2016 and 2015

**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, 2016 and 2015 consist of the following:

	<u>2016</u>	<u>2015</u>
Receivable in less than one year	\$ 579,500	\$ 629,751
Receivable in one to five years	<u>500,000</u>	<u>1,054,750</u>
Total unconditional promises to give	1,079,500	1,684,501
Less: unamortized discount on pledges	<u>(32,465)</u>	<u>(54,472)</u>
	<u>\$ 1,047,035</u>	<u>\$ 1,630,029</u>

The unamortized discounts on pledges were determined by applying an imputed interest rate of 2.5% on outstanding pledges.

**Note D - 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 agreement allowed the Foundation and Diocese to advance up to \$1.6 million each for the purchase and refurbishment of the parish. The co-lending agreement affords the Foundation priority on all repayments. All advances will bear interest at 3% per annum, will be secured by a first deed of trust, and all remaining principal and accrued interest will be due in November 2017.

Through December 31, 2016 the Foundation has advanced \$1,587,166 and received \$1,405,335 in repayments, leaving a balance of \$181,831 at December 31, 2016.

The Foundation believes the amounts are fully collectible therefore no allowance has been recorded.

**THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

For the Years Ended December 31, 2016 and 2015

**Note E - Investments and Fair Value**

Investments, which are managed and held for safekeeping by others, are recorded at fair value. The majority of the investments are held in two investment pools, while the majority of the beneficial endowment funds are separately invested. The fair market value of investments consisted of the following (see Note B):

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2016</u>				
Cash and cash equivalents	\$ 1,557,529	\$ -	\$ -	\$ 1,557,529
Corporate stock	3,006,924	-	-	3,006,924
Fixed income	3,130,045	4,361,152	-	7,491,197
Mutual funds	802,569	10,020,993	-	10,823,562
International mutual funds	7,593,789	4,969,657	-	12,563,446
International bond funds	-	1,476,466	-	1,476,466
Hedge funds	-	-	6,185,673	6,185,673
	<u>\$ 16,090,856</u>	<u>\$ 20,828,268</u>	<u>\$ 6,185,673</u>	<u>\$ 43,104,797</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2015</u>				
Cash and cash equivalents	\$ 906,265	\$ -	\$ -	\$ 906,265
Corporate stock	3,720,344	-	-	3,720,344
Fixed income	3,149,978	4,193,343	-	7,343,321
Mutual funds	781,923	8,386,724	-	9,168,647
International mutual funds	6,726,745	4,820,381	-	11,547,126
International bond funds	-	1,384,010	-	1,384,010
Hedge funds	-	-	6,057,998	6,057,998
	<u>\$ 15,285,255</u>	<u>\$ 18,784,458</u>	<u>\$ 6,057,998</u>	<u>\$ 40,127,711</u>

Investments as of December 31, are classified as follows:

	<u>2016</u>	<u>2015</u>
Investments-unrestricted & temporarily restricted	\$26,477,822	\$25,066,808
Investments-permanently restricted	7,921,584	6,791,737
Investments-beneficial endowments	<u>8,705,391</u>	<u>8,269,166</u>
	<u>\$43,104,797</u>	<u>\$40,127,711</u>

**THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY**

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

**Note E - Investments and Fair Value (Continued)**

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

	<u>2016</u>	<u>2015</u>
Interest and dividend income	\$ 695,327	\$ 634,479
Realized losses	(283,333)	(45,824)
Unrealized gains (losses)	3,127,159	(2,495,078)
Investment expenses	<u>(172,200)</u>	<u>(196,601)</u>
	3,366,953	(2,103,024)
Less net investment income (losses) allocable to beneficial endowments, and agency funds	<u>551,124</u>	<u>(98,731)</u>
Net investment income (loss)	<u>\$ 2,815,829</u>	<u>\$ (2,004,293)</u>

Level 3 Assets

The following is a reconciliation of summarized activities and changes in the Level 3 assets which comprised three hedge funds during the years ended December 31:

	<u>2016</u>	<u>2015</u>
Fair value at beginning of year	\$ 6,057,998	\$ 5,986,711
Total investment income, gains and (losses)	127,675	(38,713)
Purchases of investments, net	<u>-</u>	<u>110,000</u>
	<u>\$ 6,185,673</u>	<u>\$ 6,057,998</u>

The Foundation invests primarily in investment funds, limited partnerships, and non-U.S. corporations referred to collectively for this purpose as hedge funds. Hedge funds are presented in the accompanying financial statements at fair value as determined under FASB Accounting Standards Codification ASC 820, Fair Value Measurements and Disclosures. In situations where the hedge fund does not have a readily determinable fair value and meets other eligibility criteria, the Foundation measures fair value based on net asset value per share or its equivalent.

Hedge funds' objectives are to achieve consistent positive returns with reduced risk. Strategies include: 1) trading styles/strategies which are not dependent upon a rising equity market, while attempting to reduce risk and volatility, 2) employing a multi-manager approach to equity investment, and 3) use of traditional global, long-short investing strategies, often with a fundamental bottom-up investment style across both developed and emerging markets. The unobservable inputs used to determine fair value in this category have been estimated using the net asset value per share of the investments.

**THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY**  
**NOTES TO FINANCIAL STATEMENTS**  
For the Years Ended December 31, 2016 and 2015

**Note E - Investments and Fair Value (Continued)**

Level 2 and 3 Assets by Major Category

The following table lists level 2 and 3 investment funds by major category:

	<u>Net Asset Value</u>		<u>Unfunded</u> <u>Commitments</u>	<u>Redemption</u> <u>Frequency</u>	<u>Redemption</u> <u>Notice Period</u>
	<u>2016</u>	<u>2015</u>			
Fixed income	\$ 4,361,152	\$ 4,193,343	\$ -	Daily	1 to 10 days
Mutual funds	10,020,993	8,386,724	-	Daily	1 to 10 days
International mutual funds	4,969,657	4,820,381	-	Daily-Monthly	1 to 30 days
International bond funds	1,476,466	1,384,010	-	Daily-Monthly	1 to 30 days
Hedge funds	6,185,673	6,057,998	-	Quarterly-Annually	1 to 90 days

**Note F - Commitments**

The Foundation office lease was scheduled to expire in February 2015. The Foundation entered into an amended lease agreement in September 2014, extending the lease through February 2018. Total rent expense was \$25,028 and \$23,988 for the years ended December 31, 2016 and 2015, respectively.

The future minimum annual lease payments required under the lease agreement are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2017	\$ 24,588
2018	<u>4,098</u>
	<u>\$ 28,686</u>

**Note G - Beneficial Interests Payable**

On occasions, the Foundation raises funds for other organizations. The Foundation releases the funds after verification by the end of the subsequent quarter following the collection of funds. At December 31, 2016 and 2015 the beneficial interests payable were as follows:

	<u>2016</u>	<u>2015</u>
Catholic Charities	\$ 45,490	\$ 73,990
Clergy retirement	11,150	18,350
Diocese debt reduction	<u>22,600</u>	<u>36,900</u>
	79,240	129,240
Less: unamortized discount on pledges	<u>4,677</u>	<u>9,081</u>
	<u>\$ 74,563</u>	<u>\$ 120,159</u>



**THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

For the Years Ended December 31, 2016 and 2015

**Note H - 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:

	<u>2016</u>		<u>2015</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
<u>Purpose restrictions</u>				
Education endowments	\$ 102,794	\$ 4,199,833	\$ -	\$ 4,191,421
Ministry endowments	6,219	786,278	683	453,347
New parish acquisition fund	123,256	-	121,786	-
Parish endowments	8,848	511,532	4	275,899
Vocation endowments	<u>77,414</u>	<u>3,250,089</u>	<u>1,824</u>	<u>3,186,454</u>
	<u>\$ 318,531</u>	<u>\$ 8,747,732</u>	<u>\$ 124,297</u>	<u>\$ 8,107,121</u>

**Note I - Board Designations**

The Foundation's Board has designated a portion of the unrestricted net assets. During the years ended December 31, 2016 and 2015 the Board made the following designations:

	<u>2016</u>	<u>2015</u>
Endowments	\$ -	\$ 371,399
New parish acquisition fund	<u>-</u>	<u>132,544</u>
	<u>\$ -</u>	<u>\$ 503,943</u>

**THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

For the Years Ended December 31, 2016 and 2015

**Note J - 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 funds in accordance with the Foundation's spending policy (See Note K.) The Foundation refers to such funds as beneficial endowments. The following table summarizes the activity in such funds:

	<u>2016</u>	<u>2015</u>
Beginning balance	\$ 8,269,166	\$ 8,450,451
Contribution	172,671	169,690
Net investment income (loss)	544,062	(88,158)
Distributions	<u>(280,508)</u>	<u>(262,817)</u>
Ending balance	<u>\$ 8,705,391</u>	<u>\$ 8,269,166</u>

At December 31, 2016 and 2015, beneficial endowments consisted of the following:

	<u>2016</u>	<u>2015</u>
Catholic Charities	\$ 7,158,680	\$ 6,905,986
Cathedral Basilica	1,375,700	1,198,655
Catholic Extension	42,409	40,845
Notre Dame High School	89,277	85,944
Our Lady of Refuge	<u>39,325</u>	<u>37,736</u>
	<u>\$ 8,705,391</u>	<u>\$ 8,269,166</u>

# THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

### **Note K - Endowments**

The Foundation's endowments consist of approximately 43 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 assets 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

# THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

## NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2016 and 2015

### **Note K - Endowments (Continued)**

#### 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 16 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, the deficiencies of this nature are reported in unrestricted net assets were \$12,127 and \$64,217 as of December 31, 2016 and 2015, respectively.

**THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY**

**NOTES TO FINANCIAL STATEMENTS**

For the Years Ended December 31, 2016 and 2015

**Note K - Endowments (Continued)**

Endowment net asset compositions by type of funds as of December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ 195,274	\$ 7,921,584	\$ 8,116,858
Board-designated endowment funds	16,648,412	-	-	16,648,412
Unrestricted funds	<u>(10,335)</u>	<u>-</u>	<u>-</u>	<u>(10,335)</u>
<b>Total funds</b>	<b><u>\$ 16,638,077</u></b>	<b><u>\$ 195,274</u></b>	<b><u>\$ 7,921,584</u></b>	<b><u>\$ 24,754,935</u></b>

Changes in endowment net assets for the year ended December 31, 2016 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Beginning of year	\$ 16,057,518	\$ 2,512	\$ 6,791,737	\$ 22,851,767
Contributions	-	-	1,129,847	1,129,847
Investment income, net	24,249	11,420	-	35,669
Net appreciation	1,207,191	500,801	-	1,707,992
Other income	189	77	-	266
Amounts appropriated for expenditure	<u>(651,070)</u>	<u>(319,536)</u>	<u>-</u>	<u>(970,606)</u>
<b>End of year</b>	<b><u>\$ 16,638,077</u></b>	<b><u>\$ 195,274</u></b>	<b><u>\$ 7,921,584</u></b>	<b><u>\$ 24,754,935</u></b>

Endowment net asset compositions by type of funds as of December 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ 2,512	\$ 6,791,737	\$ 6,794,249
Board-designated endowment funds	16,121,735	-	-	16,121,735
Unrestricted funds	<u>(64,217)</u>	<u>-</u>	<u>-</u>	<u>(64,217)</u>
<b>Total funds</b>	<b><u>\$ 16,057,518</u></b>	<b><u>\$ 2,512</u></b>	<b><u>\$ 6,791,737</u></b>	<b><u>\$ 22,851,767</u></b>

Changes in endowment net assets for the year ended December 31, 2015 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Beginning of year	\$ 17,726,762	\$ 700,141	\$ 6,179,811	\$ 24,606,714
Contributions	3,366	-	611,926	615,292
Investment income, net	(28,333)	(11,613)	-	(39,946)
Net depreciation	(1,258,766)	(454,306)	-	(1,713,072)
Other income	405	152	-	557
Amounts appropriated for expenditure	(757,315)	(231,862)	-	(989,177)
Transfer to create board-designated endowment funds	<u>371,399</u>	<u>-</u>	<u>-</u>	<u>371,399</u>
<b>End of year</b>	<b><u>\$ 16,057,518</u></b>	<b><u>\$ 2,512</u></b>	<b><u>\$ 6,791,737</u></b>	<b><u>\$ 22,851,767</u></b>