

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

Financial Statements
For the Years Ended
December 31, 2018 and 2017



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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 financial 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, 2018 and 2017, 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, 2018 and 2017, 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 29, 2019

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

	<u>Assets</u>	
	December 31,	
	<u>2018</u>	<u>2017</u>
Cash and cash equivalents	\$ 534,017	\$ 92,433
Investments	51,919,570	54,232,781
Promises to give, net	408,696	547,030
Prepaid expenses	23,154	16,149
Other receivables	15,569	13,387
Deposit	4,100	4,100
	<u>\$ 52,905,106</u>	<u>\$ 54,905,880</u>

Liabilities and Net Assets

Liabilities:

Accounts payable and accrued liabilities	\$ 113,944	\$ 101,230
Beneficial interests payable, net	-	29,240
Agency funds	99,144	108,672
Beneficial endowments	<u>9,109,051</u>	<u>9,877,085</u>
Total liabilities	<u>9,322,139</u>	<u>10,116,227</u>

Net assets:

Without donor restrictions:

Undesignated	8,326,047	5,966,434
Board designated	<u>22,423,910</u>	<u>25,480,472</u>

30,749,957	31,446,906	
With donor restrictions	<u>12,833,010</u>	<u>13,342,747</u>

<u>43,582,967</u>	<u>44,789,653</u>
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Total liabilities and net assets	<u>\$ 52,905,106</u>	<u>\$ 54,905,880</u>
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See Notes to Financial Statements

THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY
STATEMENTS OF ACTIVITIES

	For the Years Ended					
	December 31, 2018			December 31, 2017		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenues, gains and other support						
Donations	\$ 4,384,128	\$ 924,437	\$ 5,308,565	\$ 2,420,703	\$ 3,259,656	\$ 5,680,359
Interest and dividends, net	511,203	31,449	542,652	433,480	13,308	446,788
Realized and unrealized gains (losses) on investments, net	(2,865,234)	(1,258,706)	(4,123,940)	4,027,600	1,419,834	5,447,434
Special event, revenue	4,000	-	4,000	-	-	-
Special event, expense	(3,931)	-	(3,931)	-	-	-
Other income	1,140	470	1,610	9,220	-	9,220
Net assets released from restrictions	207,387	(207,387)	-	416,314	(416,314)	-
	<u>2,238,693</u>	<u>(509,737)</u>	<u>1,728,956</u>	<u>7,307,317</u>	<u>4,276,484</u>	<u>11,583,801</u>
Grants and expenses						
Program	2,096,245	-	2,096,245	1,615,547	-	1,615,547
General and administrative	386,429	-	386,429	470,477	-	470,477
Development expenses	452,968	-	452,968	399,945	-	399,945
	<u>2,935,642</u>	<u>-</u>	<u>2,935,642</u>	<u>2,485,969</u>	<u>-</u>	<u>2,485,969</u>
Change in net assets	(696,949)	(509,737)	(1,206,686)	4,821,348	4,276,484	9,097,832
Net assets, beginning of year	<u>31,446,906</u>	<u>13,342,747</u>	<u>44,789,653</u>	<u>26,625,558</u>	<u>9,066,263</u>	<u>35,691,821</u>
Net assets, end of year	<u>\$ 30,749,957</u>	<u>\$ 12,833,010</u>	<u>\$ 43,582,967</u>	<u>\$ 31,446,906</u>	<u>\$ 13,342,747</u>	<u>\$ 44,789,653</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>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,206,686)	\$ 9,097,832
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Net realized and unrealized (gains) losses on investments	4,123,940	(5,447,434)
Net unamortized discount on promises to give and beneficial interests payable	(10,766)	(1,219)
Contributions restricted for long-term purposes	(990,974)	(3,464,607)
Changes in assets and liabilities:		
Promises to give, net	149,100	505,901
Prepaid expenses	(7,005)	(14,509)
Other receivable	(2,182)	47,720
Accounts payable and accrued liabilities	12,714	25,188
Beneficial interests payable, net	(29,240)	(50,000)
Agency funds	(9,528)	15,205
Beneficial endowments, net	(53,120)	(20,134)
Net cash provided by operating activities	<u>1,976,253</u>	<u>693,943</u>
Cash flows from investing activities:		
Payment received on loan receivable	-	181,831
Proceeds from sale of investments	24,416,349	20,352,311
Purchase of investments	(26,941,992)	(24,841,033)
Net cash used by investing activities	<u>(2,525,643)</u>	<u>(4,306,891)</u>
Cash flows from financing activities:		
Contributions restricted for long-term purposes	<u>990,974</u>	<u>3,464,607</u>
Increase (decrease) in cash and cash equivalents	441,584	(148,341)
Cash and cash equivalents, beginning of year	<u>92,433</u>	<u>240,774</u>
Cash and cash equivalents, end of year	<u>\$ 534,017</u>	<u>\$ 92,433</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>2018</u>	<u>2017</u>
<u>Cash paid during the year for:</u>		
Unrelated business income tax	\$ <u>6,246</u>	\$ <u>323</u>
<u>Supplemental disclosures of non-cash investing and financing transactions:</u>		
Investments received for beneficial endowments	\$ <u>-</u>	\$ <u>196,523</u>

See Notes to Financial Statements

THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

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. 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 “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%.

Functional Allocation of Expenses

Expenses are charged to program service and supporting activities based on periodic time and expense studies. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Foundation. The expenses that are allocated primarily involve allocations based on estimate of time and effort.

THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

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, 2018 and 2017.

One donor comprised 94% and 87% of promises to give at December 31, 2018 and 2017, respectively.

THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

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.

Property and equipment amounted to \$102,292 and was fully depreciated as of December 31, 2018 and 2017.

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.

Net Assets

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

- *Net assets without donor restrictions* - Net assets available for use in general operations and not subject to donor restrictions. The board of directors has designated a portion of net assets without donor restrictions to board designated endowments and other board restrictions.
- *Net assets with donor restrictions* - Net assets subject to donor-imposed restriction. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Gifts of long-lived assets and gift of cash restricted for the acquisition of long-lived assets are recognized as revenue when the assets are placed in service. Donor-imposed restrictions are released when a restriction expires, that is when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Contributions

Donor-restricted contributions are reported as increase in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restriction are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions. The Foundation has adopted the policy of reporting net assets released from restriction upon completion of the donor purpose restriction, regardless of whether the related cash has been received.

THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

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, 2018 and 2017, 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 L.

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, 2018 and 2017

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. The Foundation recorded unrelated business income tax expense of \$6,246 and \$323 for the years ending December 31, 2018 and 2017, respectively.

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 2015 and subsequent years remain subject to examination by the Internal Revenue Service. The Foundation's California income tax returns of the tax years 2014 and subsequent years remain subject to examination by the Franchise Tax Board.

Change in Accounting Principle

On August 18, 2016, FASB issued Accounting Standard Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Foundation has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. Implementation of ASU 2016-14 changes the following aspect of prior year financial statements:

- The temporarily restricted and permanently restricted net asset classes have been combined into a single net asset class called net assets with donor restrictions.
- The unrestricted net asset class has been renamed net assets without donor restrictions.
- The financial statements include a new disclosure about liquidity and availability of resources.
- The financial statements include a new disclosure about the functional classification of expenses.

The changes have the following effect on net assets at December 31, 2017:

<u>Net assets class</u>	<u>As Originally Presented</u>	<u>After Adoption of ASU 2016-14</u>
Unrestricted net assets	\$31,446,906	\$ -
Temporarily restricted net assets	1,586,450	-
Permanently restricted net assets	11,756,297	-
Net assets without donor restrictions	-	31,446,906
Net assets with donor restrictions	-	<u>13,342,747</u>
Total net assets	<u>\$44,789,653</u>	<u>\$44,789,653</u>

THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note B - Summary of Significant Accounting Policies (Continued)

Recently Issued Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods and services to customers. The updated standard will replace most existing revenue recognition guidance in U.S. GAAP when it becomes effective. The updated standard and related standards will be effective for annual reporting periods beginning after December 15, 2018. The Foundation is evaluating the impact the adoption of this ASU may have on its financial statements.

The FASB issued ASU 2016-02, Leases (Topic 842). The guidance in this ASU supersedes the leasing guidance in Topic 840, Leases. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2019, including interim periods within those fiscal years. The Foundation is currently evaluating the impact of its pending adoption of the new standard on its financial statements for the lease agreements signed.

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, 2018. Contributions from one individual comprised approximately 21% and contributions from one board member comprised approximately 15% of contributions during the year ended December 31, 2017.

Subsequent Events

Management has evaluated subsequent events through, July 29, 2019 the date the financial statements were available to be issued.

THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note C - Liquidity and Availability

The following reflects the Foundation's financial assets as of the statement of financial position date, reduced by amounts not available for general expenditure within one year at December 31, 2018:

Financial assets at year end:	
Cash and cash equivalents	\$ 534,017
Investments	51,919,562
Promise to give, current	100,000
Other receivables, without donor restriction	<u>14,393</u>
 Total financial assets	 <u>52,567,972</u>
 Less those unavailable for general expenditures within one year, due to:	
Contractual or donor-imposed restrictions:	
Donor designated endowment funds	12,282,213
Beneficial endowment funds	9,110,393
Agency funds	99,144
Board designations:	
Board designated endowments not appropriated for expenditures	15,125,828
Other board designated restrictions	<u>6,202,071</u>
 Total not available for general expenditures	 <u>42,819,649</u>
 Financial assets available to meet general expenditures over the next twelve months	 <u>\$ 9,748,323</u>

The Foundation includes assets from donor advised funds (DAF) in financial assets available to meet general expenditures over the next twelve months because these do not have donor restrictions and are available to meet the Foundation's general expenditures, which predominately consist of grants. Assets from DAFs totaled \$8,252,951 as of December 31, 2018.

Financial assets are considered unavailable when illiquid or not convertible to cash within one year, assets held for others, endowments, and accumulated earnings net of appropriation within one year and board designated endowments.

In addition to these funds available for general expenditures, the Foundation's board of directors has chosen to charge a management fee to all funds based on quarterly market value to cover general expenditures required to operate the Foundation.

THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

Note D - Promises to Give

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

Unconditional promises to give at December 31, 2018 and 2017 consist of the followings:

	<u>2018</u>	<u>2017</u>
Receivable in less than one year	\$ 100,000	117,100
Receivable in one to five years	<u>324,500</u>	<u>456,500</u>
 Total unconditional promise to give	 424,500	 573,600
 Less: unamortized discount on pledges	 <u>(15,804)</u>	 <u>(26,570)</u>
	<u>\$ 408,696</u>	<u>\$ 547,030</u>

The unamortized discounts on pledges were determined by applying an imputed interest rate of 2.5% or 5% on outstanding pledges.

Note E - 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, 2018 and 2017 the beneficial interests payable were as follows:

	<u>2018</u>	<u>2017</u>
Catholic Charities	\$ -	\$ 16,990
Clergy retirement	-	3,950
Diocese debt reduction	<u>-</u>	<u>8,300</u>
	<u>\$ -</u>	<u>\$ 29,240</u>

Note F - Retirement Plan

The Foundation adopted a SIMPLE IRA plan (the "Plan") available to all eligible employees. All eligible employee can make elective deferral each year to the plan, up to the statutory limit. The Foundation makes matching contributions up to 3% of total compensation, subject to applicable statutory limits. Total employer matching contribution to the plan were \$15,852 and \$6,784 for the years ended December 31, 2018 and 2017, respectively.

THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note G - 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, 2018</u>				
Cash and cash equivalents	\$ 2,892,110	\$ -	\$ -	\$ 2,892,110
Corporate stock	6,117,625	-	-	6,117,625
Fixed income	4,415,597	4,990,245	-	9,405,842
Mutual funds	936,418	9,182,375	-	10,118,793
International mutual funds	9,422,941	5,741,052	-	15,163,993
International bond funds	-	1,782,174	-	1,782,174
Hedge funds	-	-	6,439,033	6,439,033
	<u>\$ 23,784,691</u>	<u>\$ 21,695,846</u>	<u>\$ 6,439,033</u>	<u>\$ 51,919,570</u>

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
<u>December 31, 2017</u>				
Cash and cash equivalents	\$ 2,483,603	\$ -	\$ -	\$ 2,483,603
Corporate stock	4,898,146	-	-	4,898,146
Fixed income	4,293,983	5,204,746	-	9,498,729
Mutual funds	1,241,991	11,012,834	-	12,254,825
International mutual funds	11,059,751	5,795,831	-	16,855,582
International bond funds	-	1,864,971	-	1,864,971
Hedge funds	-	-	6,376,925	6,376,925
	<u>\$ 23,977,474</u>	<u>\$ 23,878,382</u>	<u>\$ 6,376,925</u>	<u>\$ 54,232,781</u>

Investments as of December 31, are classified as follows:

	<u>2018</u>	<u>2017</u>
Investments-without donor restrictions	\$30,527,845	\$31,717,278
Investments-with donor restrictions	12,282,674	12,638,418
Investments-beneficial endowments	<u>9,109,051</u>	<u>9,877,085</u>
	<u>\$51,919,570</u>	<u>\$54,232,781</u>

THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note G - Investments and Fair Value (Continued)

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

	<u>2018</u>	<u>2017</u>
Interest and dividend income	\$ 932,148	\$ 724,468
Realized gains	1,073,812	628,072
Unrealized gains (losses)	(5,801,873)	5,932,625
Investment expenses	<u>(263,613)</u>	<u>(179,048)</u>
	(4,059,526)	7,106,117
Less net investment income (loss) allocable to beneficial endowments, and agency funds	<u>(478,238)</u>	<u>1,211,895</u>
Net investment income (losses)	<u>\$ (3,581,288)</u>	<u>\$ 5,894,222</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>2018</u>	<u>2017</u>
Fair value at beginning of year	\$ 6,376,925	\$ 6,185,673
Total investment income, gains and (losses)	62,108	486,036
Redemption of investments	-	(300,000)
Purchases of investments, net	<u>-</u>	<u>5,216</u>
	<u>\$ 6,439,033</u>	<u>\$ 6,376,925</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, 2018 and 2017

Note G - 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>Redemption</u>	<u>Redemption</u>
	<u>2018</u>	<u>2017</u>	<u>Commitments</u>	<u>Frequency</u>	<u>Notice Period</u>
Fixed income	\$ 4,990,245	\$ 5,204,746	\$ -	Daily	1 to 10 days
Mutual funds	9,182,375	11,012,834	-	Daily	1 to 10 days
International mutual funds	5,741,052	5,795,831	-	Daily-Monthly	1 to 30 days
International bond funds	1,782,174	1,864,971	-	Daily-Monthly	1 to 30 days
Hedge funds	6,439,033	6,376,925	-	Quarterly-Annually	1 to 90 days

Note H - Commitments

The Foundation office lease expired in February 2018. The Foundation entered into an amended lease agreement in September 2017, extending the lease through February 2021. Total office rent expense was \$25,308 and \$25,224 for the years ended December 31, 2018 and 2017, respectively.

The Foundation renewed an office equipment lease agreement in December 2018, which will expire in March 2024. The office equipment lease expense was \$3,995 and \$2,262 for the years ended December 31, 2018 and 2017.

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2019	\$ 33,500
2020	34,336
2021	10,196
2022	5,340
2023	5,340
Thereafter	<u>1,335</u>
	<u>\$ 90,047</u>

THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note I - Functional Expenses

Functional expenses by natural classification for the year ended December 31, 2018 are reflected below:

	<u>Program</u>	<u>Support Services</u>		<u>Total Support Services</u>	<u>2018 Total Expenses</u>
		<u>Management and General</u>	<u>Development</u>		
Grants	\$ 1,987,720	\$ -	\$ -	\$ -	\$ 1,987,720
Salaries	78,305	172,995	311,336	484,331	562,636
Employee benefits	8,847	24,316	32,982	57,298	66,145
Legal and professional	3,408	52,148	7,951	60,099	63,507
Marketing	828	2,759	51,766	54,525	55,353
Financial and administrative	336	34,243	1,337	35,580	35,916
Payroll taxes	4,737	10,465	18,834	29,299	34,036
Computer expenses	4,723	17,343	11,021	28,364	33,087
Rent	4,395	14,652	10,256	24,908	29,303
Uncollectible pledges	-	25,000	-	25,000	25,000
Miscellaneous	-	12,104	-	12,104	12,104
Insurance	1,500	4,584	4,111	8,695	10,195
Telephone	-	4,701	-	4,701	4,701
Office supplies	654	2,402	1,526	3,928	4,582
Travel	599	2,100	1,398	3,498	4,097
Repair and maintenance	-	3,667	-	3,667	3,667
Printing and postage	193	2,950	450	3,400	3,593
	<u>\$ 2,096,245</u>	<u>\$ 386,429</u>	<u>\$ 452,968</u>	<u>\$ 839,397</u>	<u>\$ 2,935,642</u>

THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note J - Net Assets with Donor Restrictions

Net assets with donor restrictions are restricted by donors for the purposes or period described below as of December 31:

	2018		2017	
	Subject to Passage of Time	Subject to Specified Purpose	Subject to Passage of Time	Subject to Specified Purpose
Education endowments	\$ -	\$ 4,725,975	\$ -	\$ 4,952,056
Fundraising match fund	123,051	-	209,874	-
Ministry endowments	-	1,733,829	-	1,775,723
New parish acquisition fund	125,164	-	124,349	-
Parish endowments	-	2,854,355	-	2,563,950
Vocation endowments	-	3,270,636	-	3,716,795
	<u>\$ 248,215</u>	<u>\$ 12,584,795</u>	<u>\$ 334,223</u>	<u>\$ 13,008,524</u>

Note K - Board Designated Net Assets Without Donor Restrictions

The Foundation's governing board has designated from net assets without donor restriction for the following purpose as of December 31, 2018 and 2017:

	2018	2017
Board designated endowments	\$15,822,566	\$18,530,638
Other board restrictions	<u>6,601,344</u>	<u>6,949,834</u>
	<u>\$22,423,910</u>	<u>\$25,480,472</u>

THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note L - 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 M.) The Foundation refers to such funds as beneficial endowments. The terms of the contributions require funds to be segregated for Catholic Charities and Cathedral Basilica. The following table summarizes the activity in such funds:

	<u>2018</u>	<u>2017</u>
Beginning balance	\$ 9,877,085	\$ 8,705,391
Contributions	15,777	269,886
Net investment income (loss)	(468,711)	1,196,691
Distributions	<u>(315,100)</u>	<u>(294,883)</u>
Ending balance	<u>\$ 9,109,051</u>	<u>\$ 9,877,085</u>

At December 31, 2018 and 2017, beneficial endowments consisted of the following:

	<u>2018</u>	<u>2017</u>
Catholic Charities	\$ 7,339,713	\$ 7,931,792
Cathedral Basilica	1,599,545	1,752,200
Catholic Extension	41,586	47,503
Notre Dame High School	87,663	99,868
Our Lady of Refuge	<u>40,544</u>	<u>45,722</u>
	<u>\$ 9,109,051</u>	<u>\$ 9,877,085</u>

THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2018 and 2017

Note M - Endowments

The Foundation's endowments consist of approximately 70 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 net assets with donor restrictions and retains in perpetuity (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. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by the State of California in its enacted version of 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, 2018 and 2017

Note M - 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. These deficiencies are reflected in net assets with donor restrictions.

Information with funds with the deficiencies at December 31, 2018 is listed as below:

The fair value of the endowment funds	\$ 12,282,674
Less original endowment gift amount	<u>(12,668,962)</u>
Total deficiencies	<u>\$ (386,288)</u>

These deficiencies primarily resulted from unfavorable market fluctuations that occurred shortly after the investments of new contributions for donor-restricted funds.

There were no deficiencies at December 31, 2017.

THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

Note M - Endowments (Continued)

Endowment net asset compositions by type of funds as of December 31, 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Original donor restricted gift amount and amounts required to be maintained in perpetuity	\$ -	\$ 12,643,810	\$ 12,643,810
Accumulated investment gain (loss)	443	(361,136)	(360,693)
Board designated endowment funds	<u>15,822,866</u>	<u>-</u>	<u>15,822,866</u>
	<u>\$ 15,823,309</u>	<u>\$ 12,282,674</u>	<u>\$ 28,105,983</u>

Changes in endowment net assets for the year ended December 31, 2018 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Beginning of year	\$ 18,546,193	\$ 12,638,418	\$ 31,184,611
Contributions	-	990,974	\$ 990,974
Changes in donor restrictions	-	266,650	266,650
Investment income, net	16,850	30,346	47,196
Net depreciation	(1,700,520)	(1,242,127)	(2,942,647)
Board designated transfer	(342,175)	-	(342,175)
Amounts appropriated for expenditure	<u>(697,039)</u>	<u>(401,587)</u>	<u>(1,098,626)</u>
	<u>\$ 15,823,309</u>	<u>\$ 12,282,674</u>	<u>\$ 28,105,983</u>

THE CATHOLIC COMMUNITY FOUNDATION OF SANTA CLARA COUNTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2018 and 2017

Note M - Endowments (Continued)

Endowment net asset compositions by type of funds as of December 31, 2017 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Original donor restricted gift amount and amounts required to be maintained in perpetuity	\$ -	\$ 11,386,191	\$ 11,386,191
Accumulated investment gain	15,555	1,252,227	1,267,782
Board designated endowment funds	<u>18,530,638</u>	<u>-</u>	<u>18,530,638</u>
	<u>\$ 18,546,193</u>	<u>\$ 12,638,418</u>	<u>\$ 31,184,611</u>

Changes in endowment net assets for the year ended December 31, 2017 are as follows:

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Beginning of year	\$ 16,638,077	\$ 8,116,858	\$ 24,754,935
Contributions	-	3,464,607	\$ 3,464,607
Investment income, net	6,485	12,818	19,303
Net appreciation	2,618,812	1,409,801	4,028,613
Amounts appropriated for expenditure	<u>(717,181)</u>	<u>(365,666)</u>	<u>(1,082,847)</u>
	<u>\$ 18,546,193</u>	<u>\$ 12,638,418</u>	<u>\$ 31,184,611</u>