

**THE CATHOLIC FOUNDATION OF SANTA CLARA
COUNTY**

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Financial Statements:	
Statements of Financial Position	2
Statements of Activities	3
Statements of Cash Flows	4
Notes to Financial Statements	5 - 17
Supplementary Financial Information:	
Independent Auditors' Report on Supplementary Financial Information	19
Schedule of Board Designated and Permanently Restricted Endowments	20

Delucchi, Hawn & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying statements of financial position of The Catholic Foundation of Santa Clara County, as of December 31, 2008 and 2007, 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, 2008 and 2007, 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
August 14, 2009

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31,	
	2008	2007
Cash and cash equivalents	\$ 5,590,324	\$ 10,962,216
Investments	13,590,006	8,585,923
Promises to give, net	30,176,895	58,071,722
Other receivables	111,076	-
Property and equipment, net	45,692	14,666
Prepaid expenses	10,996	-
	\$ 49,524,989	\$ 77,634,527

LIABILITIES AND NET ASSETS

Liabilities:		
Accounts payable and accrued liabilities	\$ 54,672	\$ 49,254
Grant payable	23,500	-
Beneficial interests payable, net	6,532,026	19,060,150
Beneficial endowments	254,429	3,311,319
	6,864,627	22,420,723
Net assets:		
Unrestricted		
Undesignated	29,583,124	47,408,346
Board designated	6,821,550	-
	36,404,674	47,408,346
Temporarily restricted	229,890	438,325
Permanently restricted	6,025,798	7,367,133
	42,660,362	55,213,804
	\$ 49,524,989	\$ 77,634,527

See Notes to Financial Statements

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
STATEMENTS OF ACTIVITIES

	For the Years Ended											
	December 31, 2008					December 31, 2007						
	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	\$ 1,709,547	\$ -	\$ 1,709,547	\$ 540	\$ 63,324	\$ 1,773,411	\$ 43,653,357	\$ -	\$ 43,653,357	\$ 16,091	\$ 2,829,627	\$ 46,499,075
Interest and dividends, net	195,583	198,156	393,739	137,773	-	531,512	293,013	-	293,013	212,890	-	505,903
Realized and unrealized losses on investments, net	(1,443,527)	(1,231,354)	(2,674,881)	(338,648)	-	(3,013,529)	(207,649)	-	(207,649)	(93,921)	-	(301,570)
Other income	2,080	-	2,080	-	-	2,080	-	-	-	-	-	-
	463,683	(1,033,198)	(569,515)	(200,335)	63,324	(706,526)	43,738,721	-	43,738,721	135,060	2,829,627	46,703,408
Other adjustments												
Uncollectible pledges	-	-	-	(4,216)	(503,849)	(508,065)	-	-	-	(875)	(366,157)	(367,032)
Transfer of restricted net assets	-	-	-	(3,884)	(904,935)	(908,819)	-	-	-	-	-	-
Change in donor restrictions	(4,125)	-	(4,125)	-	4,125	-	-	-	-	-	-	-
Board designations	(8,144,470)	8,144,470	-	-	-	-	-	-	-	-	-	-
	(7,684,912)	7,111,272	(573,640)	(208,435)	(1,341,335)	(2,123,410)	43,738,721	-	43,738,721	134,185	2,463,470	46,336,376
Grants and expenses												
Grants	4,151,591	289,722	4,441,313	-	-	4,441,313	5,250,000	-	5,250,000	-	-	5,250,000
Fundraising	-	-	-	-	-	-	1,502,619	-	1,502,619	-	-	1,502,619
General and administrative	796,343	-	796,343	-	-	796,343	111,615	-	111,615	-	-	111,615
Uncollectible pledges	5,192,376	-	5,192,376	-	-	5,192,376	2,902,764	-	2,902,764	-	-	2,902,764
Total expenses	10,140,310	289,722	10,430,032	-	-	10,430,032	9,766,998	-	9,766,998	-	-	9,766,998
Changes in net assets	(17,825,222)	6,821,550	(11,003,672)	(208,435)	(1,341,335)	(12,553,442)	33,971,723	-	33,971,723	134,185	2,463,470	36,569,378
Net assets, beginning of year	47,408,346	-	47,408,346	438,325	7,367,133	55,213,804	13,436,623	-	13,436,623	304,140	4,903,663	18,644,426
Net assets, end of year	\$ 29,583,124	\$ 6,821,550	\$ 36,404,674	\$ 229,890	\$ 6,025,798	\$ 42,660,362	\$ 47,408,346	\$ -	\$ 47,408,346	\$ 438,325	\$ 7,367,133	\$ 55,213,804

See Notes to Financial Statements

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
STATEMENTS OF CASH FLOWS

	For the Years Ended December 31,	
	2008	2007
Cash flows from operating activities:		
Changes in net assets	\$ (12,553,442)	\$ 36,569,378
Adjustments to reconcile changes in net assets to cash provided by operating activities:		
Net realized and unrealized losses on investments	3,013,529	301,570
Net unamortized discount on promises to give and beneficial interest payable	257,587	1,788,331
Net investment (gains) losses attributable to beneficial endowments	683,891	(240,597)
Loss on disposal of property and equipment	5,668	-
Depreciation	6,398	5,456
Donated marketable securities	(645,012)	(3,000,056)
Contribution restricted for long-term purposes	(63,324)	(2,463,470)
Changes in assets and liabilities:		
Promises to give, net	28,345,410	(46,620,621)
Other receivables	(111,076)	-
Prepaid expenses	(10,996)	-
Accounts payable and accrued liabilities	5,418	25,685
Grant payable	23,500	-
Beneficial interests payable, net	(13,236,294)	18,528,957
Beneficial endowments	(2,378,498)	2,215,166
Net cash provided by operating activities	3,342,759	7,109,799
Cash flows from investing activities:		
Acquisition of property and equipment	(43,092)	(5,804)
Proceeds from sales of investments	4,568,559	5,060,271
Net purchases of investments	(13,303,442)	(8,654,739)
Net cash provided (used) by investing activities	(8,777,975)	(3,600,272)
Cash flows from financing activities:		
Investment in permanent endowment	63,324	2,463,470
Increase (decrease) in cash and cash equivalents	(5,371,892)	5,972,997
Cash and cash equivalents, beginning of year	10,962,216	4,989,219
Cash and cash equivalents, end of year	\$ 5,590,324	\$ 10,962,216

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for:		
Interest	\$ -	\$ -
Income taxes	\$ -	\$ -

See Notes to Financial Statements

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2008 and 2007

Note A - Organization

Nature of Activities

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

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

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

Note B - Summary of Significant Accounting Policies

Use of Estimates

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

Fund Accounting

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

Cash and Cash Equivalents

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

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2008 and 2007

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.

The Foundation adopted the provisions of the Financial Accounting Standards Board in SFAS No. 157, "Fair Value Measurements" effective January 1, 2008. Under SFAS No. 157, fair value is defined as "the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date."

SFAS No. 157 establishes a hierarchy to prioritize the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest ranking to fair values determined using unadjusted quoted prices in active markets for identical assets (Level 1) and the lowest ranking to fair values determined using methodologies and models with unobservable inputs (Level 3). Observable inputs are those that market participants would use in pricing the asset based on market data obtained from sources independent of the Foundation. Unobservable inputs reflect the Foundation's assumption about the inputs market participants would use in pricing the asset or liability developed based on the best information available in the circumstances.

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

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

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

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

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.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2008 and 2007

Note B - Summary of Significant Accounting Policies (continued)

Promise to Give

The Foundation accounts for promises to give in accordance with the recommendations of the Financial Accounting Standards Board in SFAS No. 116, "Accounting for Contributions Received and Contributions Made". Under SFAS No. 116, 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 promisor, 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 \$19,367,653 and \$3,994,814 at December 31, 2008 and 2007, respectively. The increase in the allowance for uncollectible pledges in the year ended December 31, 2008, resulted in a reduction in beneficial interests of \$13,424,357 and an increase in uncollectible pledges of \$1,948,482.

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.

Concentration of Credit Risk

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

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2008 and 2007

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.

Functional Allocation of Expenses

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

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 \$8,606 and \$9,173 as of December 31, 2008 and 2007, respectively and depreciation expense was \$6,398 and \$5,456 for the years ended December 31, 2008 and 2007, respectively.

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 has elected to defer the provisions of FIN 48, *Accounting for Uncertainty in Income Taxes*, under the provisions of FSP FIN 48-3. The Foundation uses a FAS 5, *Loss Contingencies*, approach for evaluating uncertain tax positions. We continually evaluate expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2008 and 2007

Note B - Summary of Significant Accounting Policies (continued)

Beneficial Interests

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.

Reclassifications

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

Note C - Investments

In accordance with SFAS No. 157, 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>2008</u>	<u>2007</u>
Corporate stocks	\$ 7,566,887	\$ 5,218,895
Corporate bonds	3,314,301	1,611,359
Mutual funds	227,616	546,310
International mutual funds	813,233	830,739
U.S. Government Securities	<u>1,667,969</u>	<u>378,620</u>
Total investments	<u>\$ 13,590,006</u>	<u>\$ 8,585,923</u>

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

	<u>2008</u>	<u>2007</u>
Interest and dividend income	\$ 636,349	\$ 530,003
Net realized and unrealized losses	(3,013,529)	(289,351)
Investment expenses	<u>(104,837)</u>	<u>(36,319)</u>
Net investment income (losses)	<u>\$ (2,482,017)</u>	<u>\$ 204,333</u>

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2008 and 2007

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, 2008 and 2007 consist of the following:

	<u>2008</u>	<u>2007</u>
Receivable in less than one year	\$ 14,912,848	\$ 16,714,010
Receivable in one to five years	<u>38,857,397</u>	<u>50,028,806</u>
Total unconditional promises to give	53,770,245	66,742,816
Less: unamortized discount on pledges	(4,225,697)	(4,676,280)
Less: allowance for uncollectible pledges	<u>(19,367,653)</u>	<u>(3,994,814)</u>
	<u>\$ 30,176,895</u>	<u>\$ 58,071,722</u>

The unamortized discount on pledges is determined by applying an imputed interest rate of 2.5% on pledges received in 2008 and 3.5% on pledges received in 2007.

Note E - Line of Credit

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

The agreement required the Foundation to comply with various financial covenants and management was not aware of any violations.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2008 and 2007

Note F - Restricted Net Assets

Temporarily restricted net assets are restricted by donors for the purposes described below or for time restrictions. 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:

	2008		2007	
	Temporarily Restricted	Permanently Restricted	Temporarily Restricted	Permanently Restricted
Purpose restrictions				
Parish refurbishment endowment	\$ -	\$ 143,977	\$ 1,574	\$ 143,808
Parish stewardship endowment	-	7,811	(9)	9,747
Parish outreach endowment	-	17,715	-	22,109
Seminarian endowment	-	1,850,139	42,426	1,977,712
Diaconate training endowment	-	14,029	(4)	18,535
Clergy retirement endowment	-	-	3,884	904,935
Education endowment	-	3,841,030	101,180	4,118,710
ILM endowment	-	22,368	475	26,849
Pastoral ministry endowment	-	31,543	(9)	34,277
Youth ministry staff endowment	-	20,890	(9)	24,591
Young adult ministry endowment	-	18,999	(4)	24,799
Social justice endowment	-	12,030	(13)	12,844
New parish fund	229,890	-	286,881	-
Other endowments	-	45,267	1,953	48,217
	<u>\$ 229,890</u>	<u>\$ 6,025,798</u>	<u>\$ 438,325</u>	<u>\$ 7,367,133</u>

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

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

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2008 and 2007

Note G - Beneficial Interests

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, 2008 and 2007 the beneficial interests were as follows:

	2008	2007
Catholic Charities	\$ 345,704	\$ 981,814
Diocese debt reduction	-	176,666
Parish support	6,243,159	20,226,044
Clergy retirement endowment	1,039,900	-
Other	662	662
	7,629,425	21,385,186
Less: unamortized discount on pledges	(577,809)	(1,285,979)
Less: allowance for uncollectible pledges	(519,590)	(1,039,057)
	\$ 6,532,026	\$ 19,060,150

Note H - Beneficial Endowments

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

	2008	2007
Beginning balance	\$ 3,311,319	\$ 1,336,750
Transfers to the Foundation	-	1,778,262
Net investment income (loss)	(683,891)	240,597
Transfers to the Diocese of San Jose	(2,292,877)	-
Grants	-	(44,290)
	334,551	3,311,319
Less: unamortized discount on pledges	(12,660)	-
Less: allowance for uncollectible pledges	(67,462)	-
Ending Balance	\$ 254,429	\$ 3,311,319

The Cathedral Basilica is the sole beneficiary of the beneficial endowments at December 31, 2008 and 2007.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2008 and 2007

Note I - Operating Agreements

Fundraising

The Foundation retained the services of Community Counseling Service (the fundraiser) to provide professional fundraising services and to assist the Foundation in planning, organizing and initializing a major fundraising campaign. The campaign is to raise funds in support of the charitable purposes for which the Foundation was established (see Note A). The Foundation entered into a professional services agreement with the fundraiser to provide these services through August 2007. For the year ended December 31, 2007, the total fee paid to the fundraiser was \$1,000,000. There were no fundraising fees incurred and paid in 2008.

Administrative Services Agreement

The Foundation entered into an administration services agreement with the Diocese of San Jose. Under the terms of the agreement, the Diocese of San Jose will provide to the Foundation for its benefit property, equipment, clerical, financial and other administrative services as needed by the Foundation to conduct its day-to-day operations. The original agreement was amended in 2007 and was terminated in October 2008. For the years ended December 31, 2008 and 2007, the total amount paid to the Diocese of San Jose in exchange for these services was \$88,634 and \$228,485, respectively.

Note J - Commitments

The Foundation leased its office space under an operating lease agreement that expired in November 2008. Effective November 15, 2008, the Foundation relocated its office to a new facility under a three year operating lease agreement which expires on December 31, 2011. The monthly lease payment is \$3,712 and is subject to annual increases. The total rent expense for the years ended December 31, 2008 and 2007 was \$17,963 and \$20,136, respectively. The future minimum annual lease payments required under the lease agreement are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2009	\$ 44,544
2010	46,776
2011	<u>49,116</u>
	<u>\$ 140,436</u>

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2008 and 2007

Note K - Endowments

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

Investment Return Objectives, Risk Parameters and Strategies

The Organization 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 Organization expects its investable endowment assets, over time, to produce an average rate of return of approximately 4-6% annually. Actual returns in any given year may vary from this amount. Investment risk is measured in terms of the total endowment fund; investment assets and allocation between asset classes and strategies are managed to not expose the fund to unacceptable levels of risk.

Spending Policy

The Organization 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. Due to the unprecedented market losses in 2008 the Board of Directors did not make any distribution from donor-restricted endowments.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor restricted endowment funds may fall below the amount required to be retained as a fund of perpetual duration. In accordance with generally accepted accounting principles, deficiencies of this nature are reported in unrestricted net assets. These deficiencies resulted from unfavorable market fluctuations that occurred shortly after the investment of the donor-restricted contributions and continued appropriation for certain programs that was deemed prudent by the Board of Directors. The deficiencies amounted to \$605,625 as of December 31, 2008 and there were no such deficiencies as of December 31, 2007.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2008 and 2007

Note K - Endowments (continued)

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

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

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

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

Endowment net asset composition by type of funds as of December 31, 2007 is as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Donor-restricted endowment funds	\$ -	\$ 151,444	\$ 7,367,133	\$ 7,518,577
Board-designated endowment funds	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total funds	<u>\$ -</u>	<u>\$ 151,444</u>	<u>\$ 7,367,133</u>	<u>\$ 7,518,577</u>

Changes in endowment net assets for the year ended December 31, 2007 are as follows:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total Net Endowment Assets</u>
Beginning of year	\$ -	\$ 43,685	\$ 4,903,663	\$ 4,947,348
Contributions, net	-	-	2,463,470	2,463,470
Investment income, net	-	201,680	-	201,680
Net appreciation (depreciation)	-	(93,921)	-	(93,921)
Amounts appropriated for expenditure	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
End of year	<u>\$ -</u>	<u>\$ 151,444</u>	<u>\$ 7,367,133</u>	<u>\$ 7,518,577</u>

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2008 and 2007

Note L - Capital Campaign Results

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

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

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

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2008 and 2007

Note L - Capital Campaign Results (continued)

As of December 31, 2008, the cumulative campaign results are as follows:

Total amount raised (contributions and pledges)	
Cathedral Basilica endowment	\$ 362,170
Catholic Charities	1,524,251
Clergy retirement endowment	1,091,172
Diocese debt reduction	576,316
Diaconate training endowment	21,416
Education endowment	4,372,296
ILM endowment	24,638
New Parish fund	269,910
Parish outreach endowment	24,570
Parish repair and maintenance endowment	149,798
Parish stewardship endowment	9,910
Pastoral ministry endowment -	37,725
Seminarian endowment	2,120,334
Social justice education endowment	13,966
Unrestricted endowment	62,500
Young adult ministry endowment	28,991
Youth ministry staff endowment	29,041
Unrestricted funds	<u>86,840,029</u>
Sub-total	97,559,033
Less: Initial adjustment to fair value	(3,370,957)
Less: Net present value discounts	(3,635,228)
Less: Beneficial interests	(26,608,293)
Less: Beneficial endowments	<u>(362,170)</u>
Total cumulative campaign revenue	<u>\$ 63,582,385</u>
Total cumulative fundraising expenses	<u>\$ 3,048,150</u>
Total cumulative cash received from contributors	<u>\$ 40,346,858</u>
Total cumulative distributions	<u>\$ 17,519,852</u>

The following are intentions to give that have not been recognized in the financial statements because they do not meet the requirements of unconditional promises to give:

Land for new parishes	\$ 5,000,000
Beneficial interests in charitable remainder trusts	<u>6,500,000</u>
	<u>\$ 11,500,000</u>

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
SUPPLEMENTARY FINANCIAL INFORMATION
For the Years Ended December 31, 2008 and 2007

Delucchi, Hawn & Co., LLP
Certified Public Accountants

**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, 2008 and 2007, 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 are 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
August 14, 2009

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
SCHEDULE OF BOARD DESIGNATED AND PERMANENTLY RESTRICTED ENDOWMENTS
For the Year Ended December 31, 2008

	Parish Repair	Parish Stewardship	Parish Outreach	Seminarian	Diaconate Training	Clergy Retirement	Education	ILM	Pastoral Ministry	Youth Ministry	Youth Adult Ministry	Social Justice	Cathedral Basilica	Other	Total
Revenues, gains and other support															
Donations, net	\$ 169	\$ (1,936)	\$ (4,394)	\$ (127,573)	\$ (4,506)	\$ -	\$ (277,680)	\$ (4,481)	\$ (2,734)	\$ (3,701)	\$ (5,800)	\$ (814)	\$ -	\$ (2,950)	\$ (436,400)
Investment income, net	17,220	8,647	10,319	49,622	5,214	-	108,315	14,012	10,796	10,290	10,272	8,715	17,011	1,405	271,838
Net appreciation (depreciation)	(108,960)	(53,515)	(63,918)	(331,868)	(32,709)	-	(732,401)	(87,933)	(66,849)	(64,791)	(64,401)	(54,898)	(105,042)	(9,165)	(1,776,450)
Amounts appropriated for expenditures	(23,500)	-	-	(60,000)	(8,788)	-	(120,000)	(23,434)	-	(18,000)	(18,000)	(18,000)	-	-	(289,722)
Transfers to create board-designated endowment funds	556,778	348,050	417,711	417,711	208,728	-	1,113,810	556,778	417,711	417,711	417,711	348,050	696,100	-	5,916,849
Transfers of restricted net assets	-	-	-	-	-	(908,819)	-	-	-	-	-	-	-	-	(908,819)
Change in net assets	441,707	301,246	359,718	(52,108)	167,939	(908,819)	92,044	454,942	358,924	341,509	339,782	283,053	608,069	(10,710)	2,777,296
Endowment net assets, beginning of year	145,382	9,738	22,109	2,020,138	18,531	908,819	4,219,890	27,324	34,268	24,582	24,795	12,831	-	50,170	7,518,577
Endowment net assets, end of year	\$ 587,089	\$ 310,984	\$ 381,827	\$ 1,968,030	\$ 186,470	\$ -	\$ 4,311,934	\$ 482,266	\$ 393,192	\$ 366,091	\$ 364,577	\$ 295,884	\$ 608,069	\$ 39,460	\$ 10,295,873
Endowment net assets are classified as follows:															
Unrestricted	\$ (19,405)	\$ (862)	\$ (745)	\$ (186,685)	\$ (976)	\$ -	\$ (381,338)	\$ (2,606)	\$ (3,210)	\$ (1,280)	\$ (903)	\$ (1,808)	\$ -	\$ (5,807)	\$ (605,625)
Board designated	462,517	304,035	364,857	304,576	173,417	-	852,242	462,504	364,859	346,481	346,481	285,662	608,069	-	4,875,700
Temporarily restricted	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Permanently restricted	143,977	7,811	17,715	1,850,139	14,029	-	3,841,030	22,368	31,543	20,890	18,999	12,030	-	45,267	6,025,798
Endowment net assets, end of year	\$ 587,089	\$ 310,984	\$ 381,827	\$ 1,968,030	\$ 186,470	\$ -	\$ 4,311,934	\$ 482,266	\$ 393,192	\$ 366,091	\$ 364,577	\$ 295,884	\$ 608,069	\$ 39,460	\$ 10,295,873

See Notes to Financial Statements