



**THE CATHOLIC
FOUNDATION**
OF SANTA CLARA COUNTY

**Delucchi,
Hawn &
Co., LLP** Certified
Public
Accountants

**Financial Statements
For the Years Ended
December 31, 2005
and 2004**

**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 - 12

**Financial Statements
For the Years Ended
December 31, 2005
and 2004**

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, 2005 and 2004, 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, 2005 and 2004, 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
February 24, 2006

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
STATEMENTS OF FINANCIAL POSITION

ASSETS

	December 31, 2005				December 31, 2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Current assets:								
Cash and cash equivalents	\$ (81,966)	\$ 107,065	\$ 331,956	\$ 357,055	\$ 1,000	\$ -	\$ 304,426	\$ 305,426
Pledges receivable	915,467	146,587	1,048,873	2,110,927	-	-	-	-
Investments	-	121,259	1,413,796	1,535,055	-	45,069	695,574	740,643
Total current assets	<u>833,501</u>	<u>374,911</u>	<u>2,794,625</u>	<u>4,003,037</u>	<u>1,000</u>	<u>45,069</u>	<u>1,000,000</u>	<u>1,046,069</u>
Other asset:								
Pledges receivable (net of unamortized discount based on imputed interest rate of 4.5% of \$723,766 in 2005 and \$0 in 2004)	2,184,596	421,472	2,499,571	5,105,639	-	-	-	-
	<u>\$ 3,018,097</u>	<u>\$ 796,383</u>	<u>\$ 5,294,196</u>	<u>\$ 9,108,676</u>	<u>\$ 1,000</u>	<u>\$ 45,069</u>	<u>\$ 1,000,000</u>	<u>\$ 1,046,069</u>

LIABILITIES AND NET ASSETS

Current liabilities:								
Accounts payable	\$ 13,164	\$ -	\$ -	\$ 13,164	\$ 140,487	\$ -	\$ -	\$ 140,487
Long-term liabilities:								
Beneficial interests payable (net of unamortized discount based on imputed interest rate of 4.5% of \$74,724 in 2005 and \$0 in 2004)	-	675,124	-	675,124	-	-	-	-
Total liabilities	<u>13,164</u>	<u>675,124</u>	<u>-</u>	<u>688,288</u>	<u>140,487</u>	<u>-</u>	<u>-</u>	<u>140,487</u>
Net assets:								
Unrestricted	3,004,933	-	-	3,004,933	(139,487)	-	-	(139,487)
Temporarily restricted	-	121,259	-	121,259	-	45,069	-	45,069
Permanently restricted	-	-	5,294,196	5,294,196	-	-	1,000,000	1,000,000
	<u>3,004,933</u>	<u>121,259</u>	<u>5,294,196</u>	<u>8,420,388</u>	<u>(139,487)</u>	<u>45,069</u>	<u>1,000,000</u>	<u>905,582</u>
	<u>\$ 3,018,097</u>	<u>\$ 796,383</u>	<u>\$ 5,294,196</u>	<u>\$ 9,108,676</u>	<u>\$ 1,000</u>	<u>\$ 45,069</u>	<u>\$ 1,000,000</u>	<u>\$ 1,046,069</u>

See Notes to Financial Statements

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
STATEMENTS OF ACTIVITIES

	For the Years Ended							
	December 31, 2005				December 31, 2004			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, gains and other support								
Donations	\$ 3,668,925	\$ -	\$ 4,296,443	\$ 7,965,368	\$ 1,000	\$ -	\$ 1,000,000	\$ 1,001,000
Interest and dividends on investments	3,979	21,009	-	24,988	-	10,791	-	10,791
Net realized and unrealized gains on investments	-	66,807	-	66,807	-	37,937	-	37,937
	<u>3,672,904</u>	<u>87,816</u>	<u>4,296,443</u>	<u>8,057,163</u>	<u>1,000</u>	<u>48,728</u>	<u>1,000,000</u>	<u>1,049,728</u>
Supporting services								
General and administrative expenses								
Fundraising consultants	300,000	-	-	300,000	30,000	-	-	30,000
Financial and administrative services	118,126	-	-	118,126	91,107	-	-	91,107
Consultants	35,200	-	-	35,200	-	-	-	-
Audio visual and other media	14,153	-	-	14,153	-	-	-	-
Rent	13,894	-	-	13,894	10,688	-	-	10,688
Legal and professional	12,666	-	-	12,666	7,615	-	-	7,615
Interest	10,727	-	-	10,727	-	-	-	-
Transportation	8,100	-	-	8,100	1,012	-	-	1,012
Printing and reproduction	5,740	-	-	5,740	65	-	-	65
Insurance	5,119	-	-	5,119	-	-	-	-
Investment and brokerage fees	247	11,626	2,247	14,120	-	3,659	-	3,659
Miscellaneous	2,060	-	-	2,060	-	-	-	-
Office supplies	1,960	-	-	1,960	-	-	-	-
Telecommunications	492	-	-	492	-	-	-	-
	<u>528,484</u>	<u>11,626</u>	<u>2,247</u>	<u>542,357</u>	<u>140,487</u>	<u>3,659</u>	<u>-</u>	<u>144,146</u>
Change in net assets	3,144,420	76,190	4,294,196	7,514,806	(139,487)	45,069	1,000,000	905,582
Net assets, beginning of year	<u>(139,487)</u>	<u>45,069</u>	<u>1,000,000</u>	<u>905,582</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net assets, end of year	<u>\$ 3,004,933</u>	<u>\$ 121,259</u>	<u>\$ 5,294,196</u>	<u>\$ 8,420,388</u>	<u>\$ (139,487)</u>	<u>\$ 45,069</u>	<u>\$ 1,000,000</u>	<u>\$ 905,582</u>

See Notes to Financial Statements

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
STATEMENTS OF CASH FLOWS

	<u>For the Years Ended December 31,</u>	
	<u>2005</u>	<u>2004</u>
Cash flows from operating activities:		
Change in net assets	\$ 7,514,806	\$ 905,582
Adjustments to reconcile changes in net assets to cash provided by operating activities		
Net realized and unrealized gains on investments	(66,807)	(37,937)
Net unamortized discount on pledges receivable and beneficial interest payable	649,042	-
Changes in assets and liabilities:		
Pledges receivable	(7,940,332)	-
Accounts payable	(127,323)	140,487
Beneficial interests payable	749,848	-
Net cash provided by operating activities	<u>779,234</u>	<u>1,008,132</u>
Cash flows from investing activities:		
Net purchases of investment securities	(715,224)	(695,574)
Reinvested interest and dividend income, net	(12,381)	(7,132)
Net cash used by investing activities	<u>(727,605)</u>	<u>(702,706)</u>
Increase in cash and cash equivalents	51,629	305,426
Cash and cash equivalents, beginning of year	<u>305,426</u>	<u>-</u>
Cash and cash equivalents, end of year	<u>\$ 357,055</u>	<u>\$ 305,426</u>

Supplemental Disclosure of Cash Flow Information

Cash paid during the year for:		
Interest	\$ <u>10,727</u>	\$ <u>-</u>
Income taxes	\$ <u>-</u>	\$ <u>-</u>

See Notes to Financial Statements

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004

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, CA
- 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.

Investments

Investments in securities are stated at fair value, as determined by quoted market prices.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004

Note B - Summary of Significant Accounting Policies (continued)

Concentration of Credit Risk

The Foundation has cash on deposit with a federally insured bank in excess of the \$100,000 maximum amount insured by the Federal Deposit Insurance Corporation.

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 promise for performance, at which time the related revenue is recognized. A conditional promise to give is a promise that depends on the occurrence of a specified future and uncertain event to bind the promisor, at which time the revenue is recognized.

At December 31, 2005 and 2004, there was no allowance for doubtful pledges receivable and 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.

Categories of Net Assets

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

- *Unrestricted net assets* generally have no donor-imposed restrictions and represent resources over which the Foundation has discretionary control, including those contributions where donor stipulations that are no more specific than the broad limits imposed by the Foundation purpose and nature.
- *Temporarily restricted net assets* include those resources for which donor-imposed restrictions have not been met and funds for which the ultimate purpose of the proceeds is not permanently restricted.
- *Permanently restricted net assets* include those resources which require by donor-imposed restriction that the corpus be invested in perpetuity and only the income be made available for Foundation operations in accordance with donor restrictions, if any. When a donor has restricted the realized/unrealized earnings/losses to be treated in the same manner as the original donation, those earnings/losses are shown as permanently restricted.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004

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 Foundation's mission is to raise funds for distribution within the community. Accordingly, the majority of expenses are allocated to these fundraising activities. The Foundation may hire from time to time consultants to facilitate the raising of funds. The cost of these consultants is included in fundraising expense.

Advertising

The Foundation expenses advertising costs as incurred. For the years ended December 31, 2005 and 2004, the Foundation did not incur any advertising expenditures.

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.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004

Note C - Investments and Investment Income

The fair values of the Foundation's investments and cash equivalents held at December 31, 2005 and 2004 and the interest and dividend income and net realized and unrealized gains and losses for the years then ended are summarized as follows:

	2005		
	Interest & Dividend Income	Net Realized and Unrealized Gains	Fair Value
Corporate Stocks	\$ 21,347	\$ 66,807	\$ 988,140
U.S. Government Securities	2,511	-	497,915
Other Government Securities	1,130	-	49,000
	<u>\$ 24,988</u>	<u>\$ 66,807</u>	<u>\$ 1,535,055</u>
	2004		
	Interest & Dividend Income	Net Realized and Unrealized Gains	Fair Value
Corporate Stocks	\$ 10,226	\$ 37,937	\$ 690,940
Other Government Securities	565	-	49,703
	<u>\$ 10,791</u>	<u>\$ 37,937</u>	<u>\$ 740,643</u>

Note D - Unconditional Promise 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, 2005 and 2004 consist of the following:

	2005	2004
Receivable in less than one year	\$ 2,198,329	\$ -
Receivable in one to five years	5,742,003	-
Receivable in more than five years	-	-
Total unconditional promises to give	7,940,332	-
Less: unamortized discount on pledges	(723,766)	-
Less: allowance for uncollectible pledges	-	-
	<u>\$ 7,216,566</u>	<u>\$ -</u>

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004

Note D - Unconditional Promise to Give (continued)

Unconditional promises to give are presented in the accompanying balance sheet, net of the discount to present values, as follows:

	2005	2004
Pledges receivable, current	\$ 2,110,927	\$ -
Pledges receivable, long-term	5,105,639	-
	\$ 7,216,566	\$ -

Note E - Line of Credit

The Foundation has a revolving line of credit agreement with Heritage Bank of Commerce. Borrowings under the agreement are unsecured, bear interest at the bank's index rate (7.25% at December 31, 2005), and are limited to \$1,000,000. At December 31, 2005, there were no borrowings outstanding against the line of credit.

The agreement requires the Foundation to comply with various financial covenants. At December 31, 2005, management is not aware of any violations of the covenants.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Years Ended December 31, 2005 and 2004

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:

	<u>2005</u>		<u>2004</u>	
	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>
Purpose Restrictions				
Cathedral Basilica endowment	\$ -	\$ 1,000,000	\$ -	\$ 1,000,000
Seminarian endowment		1,150,000		
Education endowment		3,326,760		
Parish refurbishment endowment		125,000		
Other endowments		90,000		
Cumulative return on investments, net	<u>121,259</u>	<u>-</u>	<u>45,069</u>	<u>-</u>
	121,259	5,691,760	45,069	1,000,000
Less: Discount to present values		(395,317)	-	-
Less: Endowment related expenses	<u>-</u>	<u>(2,247)</u>	<u>-</u>	<u>-</u>
	<u>\$ 121,259</u>	<u>\$ 5,294,196</u>	<u>\$ 45,069</u>	<u>\$ 1,000,000</u>

The return on permanently restricted endowments has been categorized as temporarily restricted net assets in the accompanying financial statements. For the years ended December 31, 2005 and 2004, the net return on investments classified as temporarily restricted net assets was \$76,190 and \$45,069, respectively.

Note G - Operating Agreements

Fundraising

The Foundation has 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 fund-raising campaign. The campaign is to raise funds in support of the charitable purposes for which the Foundation was established (see Note A). The Foundation has entered into a professional services agreement with the fundraiser to provide these services through August 2007. For the years ended December 31, 2005 and 2004, total fees paid to the fundraiser were \$300,000 and \$30,000, respectively.

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004

Note G - Operating Agreements (continued)

The future payments required under the professional service agreement are as follows:

<u>Year Ending December 31,</u>	<u>Amount</u>
2006	\$ 450,000
2007	<u>1,150,000</u>
	<u>\$ 1,600,000</u>

Administrative Services Agreement

The Foundation has entered into an administration services agreement with The Roman Catholic Bishop of San Jose (DSJ). Under the terms of the agreement, the DSJ 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 agreement expires in June 2006, but may be renewable upon mutual agreement between both parties. For the years ended December 31, 2005 and 2004, the total amount paid to the DSJ in exchange for these services was \$137,317 and \$105,472, respectively.

Note H - Subsequent Event

Effective January 23, 2006, the Foundation relocated its corporate office to a new facility. The Foundation leases its facility under an operating lease agreement, expiring in December 2008, which requires monthly payments of \$1,678.

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

<u>Year Ending December 31,</u>	<u>Amount</u>
2006	\$ 20,136
2007	20,136
2008	<u>20,136</u>
	<u>\$ 60,408</u>

THE CATHOLIC FOUNDATION OF SANTA CLARA COUNTY
NOTES TO FINANCIAL STATEMENTS
For the Years Ended December 31, 2005 and 2004

Note I - 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. Funds raised for the benefit of Catholic Charities and for reduction of long term debt of the Diocese of San Jose 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.

As of December 31, 2005, the cumulative campaign results are as follows:

Total Amount Raised (contributions and pledges)	
Education endowment	\$ 3,326,760
Seminarian endowment	1,150,000
Cathedral Basilica endowment	1,000,000
Parish repair and maintenance endowment	125,000
Other endowments	90,000
Unrestricted funds	3,923,650
Catholic Charities	250,000
Diocese debt reduction	<u>500,000</u>
Subtotal	10,365,410
Less: Net present value discounts	(649,042)
Less: Beneficial interests	<u>(750,000)</u>
Total campaign revenue	<u>\$ 8,966,368</u>
Total campaign expenses	<u>\$ 623,292</u>
Total cash received from contributors	<u>\$ 2,382,929</u>
Total distributions	<u>\$ -</u>