

ROTARY CLUB OF SAN JOSE
FOUNDATION



**Financial Statements
June 30, 2018 and 2017**

**Together with
Independent Accountants' Report**

ROTARY CLUB OF SAN JOSE FOUNDATION, INC.

TABLE OF CONTENTS

June 30, 2018 and 2017

	PAGE
INDEPENDENT ACCOUNTANTS' REPORT	1
FINANCIAL STATEMENTS:	
Statements of Financial Position	2
Statements of Activities and Changes in Net Assets	3 - 4
Statements of Cash Flows	5
Notes to Financial Statements	6 - 16

INDEPENDENT ACCOUNTANTS' REPORT

To the Board of Trustees
Rotary Club of San Jose Foundation, Inc.
(A California Nonprofit Public Benefit Corporation)
San Jose, California

We have reviewed the accompanying financial statements of Rotary Club of San Jose Foundation, Inc. (the "Foundation"), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets and cash flows for the years then ended, and the related notes to the financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of the Foundation's management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the financial statements as a whole. Accordingly, we do not express such an opinion.

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.

Accountants' Responsibility

Our responsibility is to conduct the review engagements in accordance with Statements on Standards for Accounting and Review Services promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Accountants' Conclusion

Based on our reviews, we are not aware of any material modifications that should be made to the accompanying financial statements in order for them to be in accordance with accounting principles generally accepted in the United States of America.

Petrinovich Pugh & Company, LLP

Petrinovich Pugh & Company, LLP

San Jose, California
November 19, 2018

ROTARY CLUB OF SAN JOSE FOUNDATION, INC.

Statements of Financial Position

June 30, 2018 and 2017

ASSETS

	<u>2018</u>	<u>2017</u>
Current assets:		
Cash and cash equivalents	\$ 1,103,723	\$ 759,976
Accounts receivable	2,652	4,742
Prepaid expenses	11,408	37,693
	<u>1,117,783</u>	<u>802,411</u>
Total current assets		
Investments	4,610,646	4,605,527
	<u>5,728,429</u>	<u>5,407,938</u>
Total assets		

LIABILITIES AND NET ASSETS

	<u>2018</u>	<u>2017</u>
Current liabilities:		
Accounts payable	\$ -	\$ 3,949
Deferred revenue	79,000	60,500
	<u>79,000</u>	<u>64,449</u>
Total current liabilities		
Net assets:		
Unrestricted:		
Board designated endowment	3,605,904	3,572,478
Undesignated	828,334	639,525
	<u>4,434,238</u>	<u>4,212,003</u>
Total unrestricted net assets		
Temporarily restricted	100,738	103,445
Permanently restricted	1,114,453	1,028,041
	<u>5,649,429</u>	<u>5,343,489</u>
Total net assets		
Total liabilities and net assets	<u>\$ 5,728,429</u>	<u>\$ 5,407,938</u>

See independent accountants' review report and notes to the financial statements

ROTARY CLUB OF SAN JOSE FOUNDATION, INC.**Statement of Activities and Changes in Net Assets**

For the Year Ended June 30, 2018

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, support and other income:				
Contributions	\$ -	\$ 266,985	\$ -	\$ 266,985
Member permanent contributions	-	-	86,412	86,412
Member annual donations	80,595	-	-	80,595
Dividend income	161,713	-	-	161,713
Interest income	355	-	-	355
Net realized loss on investments	(3,469)	-	-	(3,469)
Net unrealized gain on investments	144,012	-	-	144,012
Total revenue, support and other income	<u>383,206</u>	<u>266,985</u>	<u>86,412</u>	<u>736,603</u>
Special events revenue	281,155	134,724	-	415,879
Special events expense	<u>(79,622)</u>	<u>(134,760)</u>	-	<u>(214,382)</u>
Special events, net	201,533	(36)	-	201,497
Net assets released from restrictions	<u>269,656</u>	<u>(269,656)</u>	-	-
Total revenues	<u>854,395</u>	<u>(2,707)</u>	<u>86,412</u>	<u>938,100</u>
Expenses:				
Program services	580,552	-	-	580,552
Support services	50,500	-	-	50,500
Fundraising services	<u>1,108</u>	-	-	<u>1,108</u>
Total expenses	<u>632,160</u>	-	-	<u>632,160</u>
Change in net assets	222,235	(2,707)	86,412	305,940
Net assets, beginning of year	<u>4,212,003</u>	<u>103,445</u>	<u>1,028,041</u>	<u>5,343,489</u>
Net assets, end of year	<u>\$ 4,434,238</u>	<u>\$ 100,738</u>	<u>\$ 1,114,453</u>	<u>\$ 5,649,429</u>

See independent accountants' review report and notes to the financial statements

ROTARY CLUB OF SAN JOSE FOUNDATION, INC.**Statement of Activities and Changes in Net Assets**

For the Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenue, support and other income:				
Contributions	\$ -	\$ 271,135	\$ -	\$ 271,135
Member permanent contributions	-	-	92,344	92,344
Member annual donations	67,865	-	-	67,865
Dividend income	126,690	-	-	126,690
Interest income	388	-	-	388
Net realized gain on investments	20,537	-	-	20,537
Net unrealized gain on investments	213,466	-	-	213,466
Total revenue, support and other income	<u>428,946</u>	<u>271,135</u>	<u>92,344</u>	<u>792,425</u>
Special events revenue	241,226	185,945	-	427,171
Special events expense	<u>(64,827)</u>	<u>(144,287)</u>	<u>-</u>	<u>(209,114)</u>
Special events, net	176,399	41,658	-	218,057
Net assets released from restrictions	<u>246,418</u>	<u>(246,418)</u>	<u>-</u>	<u>-</u>
Total revenues	<u>851,763</u>	<u>66,375</u>	<u>92,344</u>	<u>1,010,482</u>
Expenses:				
Program services	572,075	-	-	572,075
Support services	<u>60,045</u>	<u>-</u>	<u>-</u>	<u>60,045</u>
Total expenses	<u>632,120</u>	<u>-</u>	<u>-</u>	<u>632,120</u>
Change in net assets	219,643	66,375	92,344	378,362
Net assets, beginning of year	<u>3,992,360</u>	<u>37,070</u>	<u>935,697</u>	<u>4,965,127</u>
Net assets, end of year	<u>\$ 4,212,003</u>	<u>\$ 103,445</u>	<u>\$ 1,028,041</u>	<u>\$ 5,343,489</u>

See independent accountants' review report and notes to the financial statements

ROTARY CLUB OF SAN JOSE FOUNDATION, INC.

Statements of Cash Flows

For the Years Ended June 30, 2018 and 2017

	<u>2018</u>	<u>2017</u>
Cash flows from operating activities:		
Change in net assets	\$ 305,940	\$ 378,362
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Net realized loss (gain) on investments	3,469	(20,537)
Net unrealized gain on investments	(144,012)	(213,466)
Changes in operating assets and liabilities:		
Accounts receivable	2,090	31,705
Prepaid expenses	26,285	37,874
Accounts payable	(3,949)	(27,788)
Deferred revenue	18,500	(85,000)
Net cash provided by operating activities	<u>208,323</u>	<u>101,150</u>
Cash flows from investing activities:		
Proceeds from sale of investments	530,293	387,159
Purchase of investments	(303,846)	(336,561)
Investment in endowment	(91,023)	(133,744)
Net cash provided by (used for) investing activities	<u>135,424</u>	<u>(83,146)</u>
Increase in cash and cash equivalents	343,747	18,004
Cash and cash equivalents, beginning of year	<u>759,976</u>	<u>741,972</u>
Cash and cash equivalents, end of year	<u>\$ 1,103,723</u>	<u>\$ 759,976</u>

See independent accountants' review report and notes to the financial statements

ROTARY CLUB OF SAN JOSE FOUNDATION, INC.

Notes to Financial Statements

June 30, 2018 and 2017

Note 1 - Organization:

The Rotary Club of San Jose Foundation, Inc. (the Foundation), is a non-profit organization under the General Non-Profit Corporation Law of the State of California. The Foundation makes grants to assist local community and international service organizations. The priority of funding is to support local community organizations. The Foundation also sponsors projects and identifiable capital purchases. Generally, grants are not given for operating expenses, office and administrative equipment, the purchase of real estate, contributions to a “general fund” or “campaign”, or to an individual. Sources of revenue are primarily contributions, fundraising events and investments.

The Foundation is associated with the Rotary Club of San Jose, Inc. (the Club), also a California non-profit organization with which it shares facilities and employees. See Note 5.

Note 2 - Summary of significant accounting policies:

Basis of accounting - The financial statements have been prepared on the accrual basis of accounting which recognizes revenue when earned and expenses when incurred and accordingly, reflect all significant receivables, payables, accruals and other liabilities.

Basis of presentation - The Foundation reports information regarding its financial position and activities according to three classes of net assets:

- *Unrestricted net assets* consist of net assets for which there are no donor-imposed restrictions or such donor-imposed restrictions were temporary and expired during the current or previous years. Unrestricted net assets include those expendable resources that have been designated for special use by the Board of Trustees.
- *Temporarily restricted net assets* represent contributions whose use is restricted by the donor, often based on time or purpose. Generally, these assets will be expended over a period of time and are not available for immediate use.
- *Permanently restricted assets* are those whose use is restricted to a specific use in perpetuity. By donor stipulation, earnings from permanently restricted net assets may be used each year for operating activities. The principal is to be maintained intact in perpetuity.

Endowment accounting and interpretation of relevant law - The Foundation’s endowment includes donor-restricted endowment funds and funds designated by the Board to function as endowments. As required by Generally Accepted Accounting Principles (GAAP), net assets associated with endowment funds, including funds designated by the Board of Trustees to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions.

ROTARY CLUB OF SAN JOSE FOUNDATION, INC.

Notes to Financial Statements

June 30, 2018 and 2017

Note 2 - Summary of significant accounting policies (continued):

Endowment accounting and interpretation of relevant law (continued) - The Board of Trustees of the Foundation has interpreted the State Prudent Management of Institutional Funds Act (“SPMIFA”) 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 this endowment as permanently restricted net assets at (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund.

The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as unrestricted net assets, yet maintained in the designated portion of the endowment fund until appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by SPMIFA.

Use of estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates under different assumptions or conditions.

Revenue recognition - The Foundation records contributions, grants, and promises to give, including unconditional pledges receivable, at their fair value in the period the contribution or pledge is received. Contributed support that is restricted by the donor is reported as an increase in restricted net assets and released from restrictions if the restriction expires in the reporting period in which the support is recognized. When such restrictions expire, that is, when a stipulated time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported as net assets released from restriction. All other contributed support is recognized as unrestricted revenue when received or unconditionally promised.

Contributions that are expected to be collected in future years are recorded at the net present value of their estimated future cash flows. Amortization of the discounts is included in contribution revenue. Conditional promises to give are not included as support until the conditions are substantially met.

ROTARY CLUB OF SAN JOSE FOUNDATION, INC.

Notes to Financial Statements

June 30, 2018 and 2017

Note 2 - Summary of significant accounting policies (continued):

Contributions-in-kind - Significant donated property and equipment is recorded at estimated fair value at the time of receipt. Contributed services, which require a specialized skill and which the Foundation would have paid for if not contributed, have been recorded at their estimated fair market value as appropriate. Numerous volunteers donate significant amounts of their time to the Foundation's fundraising and other activities. No amounts have been recorded for these donated services since they do not meet the criteria noted above.

Functional expense allocations - The costs of providing the grant program and supporting services have been summarized on a functional basis in the statements of activities and changes in net assets.

Cash and cash equivalents - Cash and cash equivalents consist of cash and money market funds. The Foundation considers all highly liquid investments with a maturity of three months or less at the date of purchase to be cash equivalents. The carrying amount in the statements of financial position approximates fair value.

Accounts receivable - Accounts receivable are stated at the amount the Foundation expects to collect. In the opinion of management, substantially all of the accounts receivable are considered to be realizable at the amounts stated in the accompanying statements of financial position and no allowance for doubtful accounts is considered necessary. Bad debt is recognized at the time it is deemed uncollectable by management.

Investments - The Foundation invests in marketable securities. All debt securities and equity securities are carried at quoted market prices as of the last trading date of the Foundation's fiscal year. Gains and losses that result from market fluctuations are recognized in the period such fluctuations occur. Realized gains or losses resulting from sales or maturities are the differences between the investment's cost basis and the sale or maturity settlement of the investment. Dividend and interest income are accrued when earned.

Accounts payable - Accounts payable include the Foundation's trade accounts payable in the normal course of operations. The Foundation had no accounts payable as of June 30, 2018. As of June 30, 2017, the Foundation had accounts payable of \$3,949.

Deferred revenue - The Foundation collects revenue for an event that occurs after year end. Accordingly, the Foundation has recorded the collected revenue for subsequent years as deferred revenue. As of June 30, 2018 and 2017, the Foundation had deferred revenue of \$79,000 and \$60,500, respectively.

ROTARY CLUB OF SAN JOSE FOUNDATION, INC.

Notes to Financial Statements

June 30, 2018 and 2017

Note 2 - Summary of significant accounting policies (continued):

Income taxes - The Foundation has obtained exempt status from the Internal Revenue Service under Section 501(c)(3) of the Internal Revenue Code and under Section 23701(d) of the California Revenue & Tax Code. The Foundation did not have any unrelated business activities during the fiscal years ended June 30, 2018 and 2017. Accordingly, no provision for Federal or California income taxes has been made.

Accounting for uncertainty in income taxes - The Foundation evaluates its uncertain tax positions and will recognize a loss contingency when it is probable that a liability has been incurred as of the date of the financial statements and the amount of the loss can be reasonably estimated. The amount recognized is subject to estimate and management judgment with respect to the likely outcome of each uncertain tax position. The amount that is ultimately sustained for an individual uncertain tax position and for all uncertain tax positions in the aggregate could differ from the amount recognized. As of June 30, 2018 and 2017 management did not identify any uncertain tax positions.

The Foundation is subject to potential examination by taxing authorities for income tax returns filed in the U.S. federal jurisdiction and the State of California. The tax years that remain subject to potential examination for the U.S. federal jurisdiction is for the fiscal tax year June 30, 2015 and forward.

Concentration of credit risk - Financial instruments that potentially subject the Foundation to credit risk consist primarily of cash and cash equivalents and investments. The Foundation maintains cash and cash equivalents with commercial banks and other major financial institutions. Cash equivalents include overnight investments and money market funds. These accounts are insured up to \$250,000 per depositor by an agency of the federal government. At times, such amounts may exceed Federal Deposit Insurance Corporation (“FDIC”) limits. As of June 30, 2018 and 2017, the Foundation had approximately \$710,000 and \$480,000, respectively, in deposits in excess of the federally insured limit. Risk associated with cash and cash equivalents is mitigated by maintaining deposits with credit worthy financial institutions.

The Foundation maintains cash with a financial institution that is a member of the Securities Investor Protection Corporation (“SIPC”), which is a non-profit membership corporation created under the Securities Investor Protection Act. The SIPC protects cash account balances up to \$250,000. As of June 30, 2018 and 2017, the Foundation had no cash deposits in excess of the SIPC limit. The financial institution also maintains a private insurance policy that provides additional coverage of \$1,500,000 for the Foundation’s cash accounts.

ROTARY CLUB OF SAN JOSE FOUNDATION, INC.

Notes to Financial Statements

June 30, 2018 and 2017

Note 2 - Summary of significant accounting policies (continued):

Concentration in investments - The Foundation's investments are valued in accordance with GAAP, including Fair Value Measurements. The Foundation may have risk associated with its concentration of investments in one geographic region and in certain industries.

Fair value of financial instruments - Financial instruments included in the Foundation's statements of financial position as of June 30, 2018 and 2017 include cash and cash equivalents, investments and receivables. For cash and cash equivalents and short-term receivables, the carrying amount approximates fair value due to their short maturities. Investments are reflected in the accompanying statements of financial position at their estimated fair values using methodologies described in Note 3.

Services Received from Personnel of an Affiliate - The Foundation recognizes and measures services received from personnel of an affiliate in accordance with Accounting Standards Update No. 2013-06, *Services Received from Personnel of an Affiliate*. An affiliate is defined in the Master Glossary as a party that, directly or indirectly through one or more intermediaries, controls, is controlled by, or is under common control with an entity. The adoption of this guidance did not have a material impact on the Foundation's financial statements.

Recent Accounting Pronouncements Not Yet Implemented – In August 2016, the FASB issued ASU 2016-14, *Not-for-Profit Financial Statements*. The standard's core principal is to improve the current net asset classification requirements and the information presented in the financial statements and notes about a not-for profit entity. The standard eliminates the distinction between permanently and temporarily restricted net assets. The standard also includes enhanced disclosure requirements for board designated funds and donor restricted funds, qualitative information on what liquid resources are available for operation and how they are managed, amounts of expenses by both natural and function classification, methods used to allocate costs among program and support, and underwater endowment funds. This standard will be effective for the fiscal year ending June 30, 2019. The Foundation is currently in the process of evaluating the impact of adoption of this ASU on the financial statements.

Subsequent events - Subsequent events have been evaluated through the date of the accountants' review report, which is the date the financial statements were available to be issued and it has been determined that no material subsequent events that require an estimate to be recorded as of November 19, 2018.

ROTARY CLUB OF SAN JOSE FOUNDATION, INC.

Notes to Financial Statements

June 30, 2018 and 2017

Note 3 - Investments:

The Foundation follows the provisions of the Fair Value Measurements and Disclosure topic of the FASB Accounting Standards Codification (“ASC”). These standards establish a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs consist of observable inputs other than quoted prices for identical assets, and Level 3 inputs consist of significant unobservable inputs.

All investments are at quoted prices in active markets for identical assets (Level 1 inputs) as follows as of June 30:

	<u>2018</u>	<u>2017</u>
Marketable securities - board designated endowment		
Fixed income investments	\$ 1,378,269	\$ 1,699,222
Equity investments	<u>1,576,999</u>	<u>1,397,919</u>
Total board designated endowment	2,955,268	3,097,141
Marketable securities - permanent endowment		
Equity investments	1,087,672	990,536
Fixed income investments	<u>567,706</u>	<u>517,850</u>
	<u>1,655,378</u>	<u>1,508,386</u>
Total investments	<u>\$ 4,610,646</u>	<u>\$ 4,605,527</u>

Note 4 - Promises to give:

Unconditional promises to give, which are not expected to be collected until after the year contributed, are reflected in the accompanying financial statements as promises to give and revenue in the appropriate net asset category. There were no promises to give at June 30, 2018 and 2017.

ROTARY CLUB OF SAN JOSE FOUNDATION, INC.

Notes to Financial Statements

June 30, 2018 and 2017

Note 5 - Related-party transactions:

The Club charged the Foundation \$70,000 for each of the fiscal years ended June 30, 2018 and 2017 as an administrative charge to perform the following services: conducting a gala fundraising auction, special events, bookkeeping and other administrative expenses for community grants and other charitable activities conducted under the auspices of the Foundation by employees of the Club. These expenses are allocated between program services and support services in the statements of activities and changes in net assets.

There is no outstanding payable to the Club as of June 30, 2018. As of June 30, 2017, the Foundation had an outstanding payable to the Club in the amount of \$3,949, shown on the statements of financial position as an accounts payable.

Note 6 - Temporarily restricted net assets:

Temporarily restricted net assets were available to fund the following committees in future years as follows as of June 30:

	<u>2018</u>	<u>2017</u>
China Exchange	\$ -	\$ 10,000
Culinary and Hospitality	1,565	968
Executive Chefs	1,000	1,000
Fireworks	42,120	42,157
Fish	6,947	12,411
Fishing South Bay	3,018	-
Leigh Weimers	42,973	32,869
Local Impact	2,685	2,585
Military Care	-	1,455
Paws to Consider	180	-
Red Badge	250	-
	<u>100,738</u>	<u>103,445</u>
Total temporarily restricted net assets	<u>\$ 100,738</u>	<u>\$ 103,445</u>

ROTARY CLUB OF SAN JOSE FOUNDATION, INC.

Notes to Financial Statements

June 30, 2018 and 2017

Note 7 - Net assets released from restriction:

Net assets, originally restricted by donors, were released as they were expended in accordance with donor restrictions as follows during the years ended June 30:

	<u>2018</u>	<u>2017</u>
China Exchange	10,000	-
Culinary and Hospitality	4,203	4,404
Disaster Relief	15,400	50,089
Downtown Development	2,500	-
Enterprise Leadership Conference	23,500	28,500
Fish	10,041	3,850
Fishing South Bay	2,313	1,031
Interact/RYLA	1,100	1,200
International Service	92,315	31,800
Leigh Weimers	17,179	22,007
Local Impact	-	4,615
Los Amigos de Washington School	8,265	4,392
Military Care Packages	1,995	1,175
RotaCare	3,000	3,500
Rotary PlayGarden	772	1,825
Rotoplast	76,700	88,030
Youth Exchange	373	-
	<hr/>	<hr/>
Total temporarily restricted net assets released	<u>\$ 269,656</u>	<u>\$ 246,418</u>

ROTARY CLUB OF SAN JOSE FOUNDATION, INC.

Notes to Financial Statements

June 30, 2018 and 2017

Note 8 - Endowment:

The endowment consists of permanently restricted net assets and the Board designated (quasi) endowment. The permanently restricted net assets represent the principal amounts of gifts accepted with donor stipulation that the principal be maintained intact in perpetuity. The quasi endowment consists of Board designated unrestricted net assets. The unrestricted quasi endowment investment gain consists of the cumulative fair value adjustment of the Board designated quasi endowment investments.

The endowment is recorded by the different classifications of net assets in the financial statements as follows as of June 30, 2018:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 1,114,453	\$ 1,114,453
Board designated endowment funds	<u>3,605,904</u>	<u>-</u>	<u>3,605,904</u>
Total endowment funds	<u>\$ 3,605,904</u>	<u>\$ 1,114,453</u>	<u>\$ 4,720,357</u>

For the fiscal year ended June 30, 2018, the Foundation had the following endowment-related activities:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2017	\$ 3,572,478	\$ 1,028,041	\$ 4,600,519
Investment return:			
Interest and dividend income	161,713	-	161,713
Net realized and unrealized gain	140,543	-	140,543
Administrative expenses	<u>(37,121)</u>	<u>-</u>	<u>(37,121)</u>
Total investment return	<u>265,135</u>	<u>-</u>	<u>265,135</u>
Contributions	<u>4,291</u>	<u>86,412</u>	<u>90,703</u>
Appropriation of endowment assets for expenditure	<u>(236,000)</u>	<u>-</u>	<u>(236,000)</u>
Endowment net assets, June 30, 2018	<u>\$ 3,605,904</u>	<u>\$ 1,114,453</u>	<u>\$ 4,720,357</u>

ROTARY CLUB OF SAN JOSE FOUNDATION, INC.

Notes to Financial Statements

June 30, 2018 and 2017

Note 8 - Endowment (continued):

The endowment is recorded by the different classifications of net assets in the financial statements as follows as of June 30, 2017:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Donor restricted endowment funds	\$ -	\$ 1,028,041	\$ 1,028,041
Board designated endowment funds	<u>3,572,478</u>	<u>-</u>	<u>3,572,478</u>
Total endowment funds	<u>\$ 3,572,478</u>	<u>\$ 1,028,041</u>	<u>\$ 4,600,519</u>

For the fiscal year ended June 30, 2017, the Foundation had the following endowment-related activities:

	<u>Unrestricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, July 1, 2016	\$ 3,446,746	\$ 935,697	\$ 4,382,443
Investment return:			
Interest and dividend income	126,690	-	126,690
Net realized and unrealized gain	234,003	-	234,003
Administrative expenses	<u>(34,961)</u>	<u>-</u>	<u>(34,961)</u>
Total investment return	<u>325,732</u>	<u>-</u>	<u>325,732</u>
Contributions	<u>-</u>	<u>92,344</u>	<u>92,344</u>
Appropriation of endowment assets for expenditure	<u>(200,000)</u>	<u>-</u>	<u>(200,000)</u>
Endowment net assets, June 30, 2017	<u>\$ 3,572,478</u>	<u>\$ 1,028,041</u>	<u>\$ 4,600,519</u>

Funds with deficiencies - From time-to-time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or SPMIFA requires the Foundation to retain as a fund of perpetual duration. There were no deficiencies for the years ended June 30, 2018 and 2017.

ROTARY CLUB OF SAN JOSE FOUNDATION, INC.

Notes to Financial Statements

June 30, 2018 and 2017

Note 8 - Endowment (continued):

Return objectives and risk parameters - The Foundation has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Foundation must hold in perpetuity or for a donor-specified period as well as Board-designated funds. Under this policy, as approved by the Foundation's Board of Trustees, the endowment assets are invested in a manner that is intended to provide a moderate average annual real return in excess of inflation. Actual returns in any given year may vary from this amount.

Strategies employed for achieving objectives - To satisfy its long-term rate-of-return objectives, the Foundation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). The Foundation targets a diversified asset allocation that places an emphasis on equity-based investments to achieve its long-term return objectives within prudent risk constraints.

Spending policies and how the investment objectives relate to spending policy - The Foundation has a policy of appropriating for distribution each year five percent of its endowment funds' average fair market value using year-end values for the prior three years. For the year ended June 30, 2018, \$236,000 was distributed from the endowment. For the year ended June 30, 2017, \$200,000 was distributed from the endowment. In establishing this policy, the Foundation considered the long-term expected return on its endowment. Accordingly, over the long-term, the Foundation expects the current spending policy to allow its endowment to grow each fiscal year. This is consistent with the Foundation's objective to maintain the purchasing power of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Note 9 - Rotary PlayGarden:

In 2015, the Rotary Club of San Jose celebrated 100 years of service by building and donating to the community a unique playground in San Jose. The Rotary PlayGarden offers all children equal play opportunities, whether able-bodied or living with disabilities. This project was completed in April 2015. It had a preliminary budget of \$6,350,000 with a final cost of \$5,932,829 which consisted of in-kind donations, construction costs, fundraising and other expenses. The Rotary Club of San Jose Foundation, Inc. was responsible for raising the funds to construct the Rotary PlayGarden. The Rotary PlayGarden with total capitalized costs of \$5,637,449 was donated to the City of San Jose in May 2015. The remaining cumulative balance of \$26,160 was classified as program services expense. During the year ended June 30, 2017, the Foundation donated the full \$26,160 to Guadalupe River Park Conservancy, a 501(c)(3) non-profit organization.