



**Catholic Charities CYO**  
San Francisco, San Mateo & Marin

**CATHOLIC CHARITIES CYO**  
**OF THE ARCHDIOCESE OF SAN FRANCISCO**

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2013**



**CATHOLIC CHARITIES CYO  
OF THE ARCHDIOCESE OF SAN FRANCISCO**

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JUNE 30, 2013**

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## **Independent Auditors' Report**

To the Board of Directors of  
Catholic Charities CYO of the Archdiocese of San Francisco

### **Report on the Financial Statements**

We have audited the accompanying combined financial statements of Catholic Charities CYO of the Archdiocese of San Francisco (a California not-for-profit corporation), which comprise the consolidated statement of financial position as of June 30, 2013, and the related consolidated statements of activities, functional expenses, program services and cash flows for the year then ended, and the related notes to the financial statements.

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

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

### **Auditors' Responsibility**

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

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

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

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Catholic Charities CYO of the Archdiocese of San Francisco as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Report on Summarized Comparative Information**

We have previously audited the Catholic Charities CYO of the Archdiocese of San Francisco's 2012 financial statements, and our report dated December 9, 2012, expressed an unqualified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Riva Accountancy Corporation*

Certified Public Accountants

San Francisco, California  
December 13, 2013

# CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	<u>June 30, 2013</u>	<u>June 30, 2012</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 10,063,953	\$ 6,920,927
Investments	716,300	654,450
Program receivables	4,896,234	4,726,822
Contributions and bequests receivable	698,258	2,388,520
Prepaid expenses and other assets	257,791	217,046
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	16,632,536	14,907,765
Contractually restricted cash	2,180,867	1,669,990
Assets of pooled income fund	774,160	787,006
Interest in charitable trusts and annuities	19,145	20,880
Contributions and bequests receivable	325,807	623,124
Property and equipment, net	9,827,541	9,594,996
Other long-term assets	95,233	114,497
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 29,855,289</u>	<u>\$ 27,718,258</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 680,156	\$ 650,198
Accrued expenses	2,171,880	1,930,944
Current portion of notes payable	40,230	109,347
Deferred revenue	412,191	444,216
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TOTAL CURRENT LIABILITIES	3,304,457	3,134,705
Notes payable	6,661,294	6,702,118
Contractual reserves	3,014,421	2,980,039
Conditional asset retirement obligations	1,066,857	1,065,712
Long-term deferred revenue and deferred compensation	143,262	127,330
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TOTAL LIABILITIES	14,190,291	14,009,904
 <b>NET ASSETS:</b>		
Unrestricted	11,004,120	8,511,534
Temporarily restricted	4,096,854	4,632,796
Permanently restricted	564,024	564,024
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TOTAL NET ASSETS	15,664,998	13,708,354
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 29,855,289</u>	<u>\$ 27,718,258</u>

See notes to consolidated financial statements.

# CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

## CONSOLIDATED STATEMENT OF ACTIVITIES (With summarized financial information for the year ended June 30, 2012)

	Year Ended June 30, 2013			Year Ended June 30, 2012 Comparative Totals	
	Unrestricted	Temporarily Restricted	Permanently Restricted		Total
<b>SUPPORT AND REVENUE FROM OPERATIONS:</b>					
Public support:					
Government service contracts	\$ 24,388,510	\$ 135,000	\$ -	\$ 24,523,510	\$ 24,463,508
Contributions and foundation grants	1,506,203	960,048	-	2,466,251	3,769,067
Bequests	2,421,558	518,298	-	2,939,856	1,856,485
Special events	-	667,902	-	667,902	507,554
Other revenue:					
Program service fees	7,569,270	-	-	7,569,270	7,187,794
Rental income	1,723,728	-	-	1,723,728	1,683,658
Investment return	9,799	55,445	-	65,244	107,615
Other income	225,846	-	-	225,846	217,910
Net assets released from restrictions	2,872,635	(2,872,635)	-	-	-
<b>TOTAL SUPPORT AND REVENUE FROM OPERATIONS</b>	<b>40,717,549</b>	<b>(535,942)</b>	<b>-</b>	<b>40,181,607</b>	<b>39,793,591</b>
<b>OPERATING EXPENSES:</b>					
Program services:					
Youth residential services	10,865,078	-	-	10,865,078	10,688,712
Children and family services	7,259,447	-	-	7,259,447	7,790,579
Housing and health stabilization services	6,886,767	-	-	6,886,767	6,803,657
Transportation and outdoor programs	6,550,474	-	-	6,550,474	6,123,991
Aging services	1,310,725	-	-	1,310,725	1,313,363
Counseling services	440,934	-	-	440,934	338,678
<b>Total Program Services</b>	<b>33,313,425</b>	<b>-</b>	<b>-</b>	<b>33,313,425</b>	<b>33,058,980</b>
Supporting services:					
Administration	3,588,240	-	-	3,588,240	3,229,683
Development	1,323,298	-	-	1,323,298	1,270,730
<b>TOTAL OPERATING EXPENSES</b>	<b>38,224,963</b>	<b>-</b>	<b>-</b>	<b>38,224,963</b>	<b>37,559,393</b>
<b>CHANGE IN NET ASSETS</b>	<b>2,492,586</b>	<b>(535,942)</b>	<b>-</b>	<b>1,956,644</b>	<b>2,234,198</b>
<b>NET ASSETS, beginning of year</b>	<b>8,511,534</b>	<b>4,632,796</b>	<b>564,024</b>	<b>13,708,354</b>	<b>11,474,156</b>
<b>NET ASSETS, end of year</b>	<b>\$ 11,004,120</b>	<b>\$ 4,096,854</b>	<b>\$ 564,024</b>	<b>\$ 15,664,998</b>	<b>\$ 13,708,354</b>

See notes to consolidated financial statements.

# CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

(With summarized financial information for the year ended June 30, 2012)

	Year Ended June 30, 2013					Year Ended June 30, 2012 Comparative Totals
	Program Services	Supporting Services		Total Administration and Development	Total Program and Support Services	
		Administration	Development			
Salaries and wages	\$ 15,805,367	\$ 2,010,995	\$ 453,926	\$ 2,464,921	\$ 18,270,288	\$ 18,059,737
Employee benefits and payroll taxes	5,453,221	503,963	141,472	645,435	6,098,656	5,578,786
<b>Total salaries and related expenses</b>	<b>21,258,588</b>	<b>2,514,958</b>	<b>595,398</b>	<b>3,110,356</b>	<b>24,368,944</b>	<b>23,638,523</b>
Financial assistance	2,582,146	-	100	100	2,582,246	3,231,042
Occupancy costs	2,465,535	232,008	51,978	283,986	2,749,521	2,517,115
Professional fees	1,379,093	527,834	239,674	767,508	2,146,601	2,330,419
Transportation costs and travel	1,440,217	23,450	10,223	33,673	1,473,890	1,334,921
Program food	899,702	97	33	130	899,832	884,090
Depreciation	727,023	9,067	-	9,067	736,090	723,834
Supplies	553,227	24,093	9,961	34,054	587,281	530,181
Insurance	654,693	19,816	5,693	25,509	680,202	544,549
Contractually required reserves	272,492	-	-	-	272,492	206,412
Child related	279,711	-	-	-	279,711	268,684
Telephone and postage	351,216	77,742	27,795	105,537	456,753	455,970
Miscellaneous	310,895	53,168	55,310	108,478	419,373	564,687
Printing and publication	35,464	55,891	102,297	158,188	193,652	190,566
Conferences and meetings	95,400	48,977	224,836	273,813	369,213	122,889
Interest	8,023	1,139	-	1,139	9,162	15,511
<b>Total direct expenses</b>	<b>33,313,425</b>	<b>3,588,240</b>	<b>1,323,298</b>	<b>4,911,538</b>	<b>38,224,963</b>	<b>37,559,393</b>
Indirect allocation	4,578,361	(3,588,240)	(990,121)	(4,578,361)	-	-
<b>Total expenses</b>	<b>\$ 37,891,786</b>	<b>\$ -</b>	<b>\$ 333,177</b>	<b>\$ 333,177</b>	<b>\$ 38,224,963</b>	<b>\$ 37,559,393</b>

See notes to consolidated financial statements.

# CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

## CONSOLIDATED STATEMENT OF PROGRAM SERVICES

Year Ended June 30, 2013

	Youth Residential Services	Children and Family	Housing and Health Stabilization Services	Transportation and Outdoor Programs	Aging Services	Counseling Services	Total Program Services
Salaries and wages	\$ 5,910,957	\$ 2,965,517	\$ 3,211,837	\$ 2,713,336	\$ 723,536	\$ 280,184	\$ 15,805,367
Employee benefits and payroll taxes	1,953,437	1,048,490	1,173,072	975,264	209,707	93,251	5,453,221
Total salaries and related expenses	7,864,394	4,014,007	4,384,909	3,688,600	933,243	373,435	21,258,588
Financial assistance	560,430	898,693	1,123,023	-	-	-	2,582,146
Occupancy costs	464,970	791,410	490,586	545,667	154,487	18,415	2,465,535
Professional fees	257,711	500,396	192,478	401,773	24,950	1,785	1,379,093
Transportation costs and travel	317,208	75,225	39,430	950,578	55,449	2,327	1,440,217
Program food	220,717	129,809	267,117	228,603	53,448	8	899,702
Depreciation	195,652	45,579	79,822	402,262	1,739	1,969	727,023
Supplies	215,272	188,546	41,834	82,577	23,121	1,877	553,227
Insurance	201,637	234,341	85,450	103,141	18,619	11,505	654,693
Contractually required reserves	-	249,326	23,166	-	-	-	272,492
Child related	279,711	-	-	-	-	-	279,711
Telephone and postage	89,918	51,057	95,064	77,823	29,284	8,070	351,216
Miscellaneous	129,921	62,081	52,610	39,835	5,694	20,754	310,895
Printing and publication	1,404	6,114	784	19,741	7,409	12	35,464
Conferences and meetings	66,133	11,718	5,710	7,780	3,282	777	95,400
Interest	-	1,145	4,784	2,094	-	-	8,023
Total direct expenses	10,865,078	7,259,447	6,886,767	6,550,474	1,310,725	440,934	33,313,425
Indirect allocation	1,499,666	984,571	911,768	936,959	184,104	61,293	4,578,361
Totals	<u>\$ 12,364,744</u>	<u>\$ 8,244,018</u>	<u>\$ 7,798,535</u>	<u>\$ 7,487,433</u>	<u>\$ 1,494,829</u>	<u>\$ 502,227</u>	<u>\$ 37,891,786</u>

See notes to consolidated financial statements.



# CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended June 30, 2013	Year Ended June 30, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 1,956,644	\$ 2,234,198
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	736,089	723,834
Loss on sale or abandonment of fixed assets	-	3,860
Net realized and unrealized gain on investments	(30,030)	(102,681)
Contribution of investments	(47,664)	(20,354)
Change in operating assets and liabilities:		
Change in contractually restricted cash	(510,877)	188,858
Receivables	1,818,167	(2,085,709)
Prepaid expenses and other assets	(19,746)	(43,190)
Accounts payable	29,958	(152,502)
Accrued expenses	240,936	(45,002)
Deferred revenue and deferred compensation	(16,093)	(29,931)
	4,157,384	671,381
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Contractually required reserves	\$ 34,382	\$ 479,958
Proceeds from sales and maturities of investments	76,637	297,814
Proceeds from sales of fixed assets	-	32,667
Purchases of investments	(47,947)	(8,806)
Purchases of property and equipment	(968,634)	(1,040,706)
	(905,562)	(239,073)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Contractual reserves	1,145	820
Payments on notes payable	(109,941)	(141,027)
	(108,796)	(140,207)
<b>NET CASH USED BY FINANCING ACTIVITIES</b>		
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	<b>3,143,026</b>	<b>292,101</b>
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	<b>6,920,927</b>	<b>6,628,826</b>
<b>CASH AND CASH EQUIVALENTS, end of year</b>	<b>\$ 10,063,953</b>	<b>\$ 6,920,927</b>
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid for interest	\$ 9,162	\$ 15,511

See notes to consolidated financial statements.

# CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2013

### **Note 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

#### Nature of activities:

Catholic Charities CYO of the Archdiocese of San Francisco (“Catholic Charities CYO”) is a non-profit human services and community development organization. The Organization is dedicated to the growth and development of children and families in a safe environment. Its mission is to alleviate human suffering by providing direct services for the poor and disenfranchised; to address the root causes of poverty and injustice by assisting people to mobilize their own resources and become self-sufficient; to enhance society’s awareness of suffering through advocacy for changing unjust social conditions.

Guided by core values of charity, social justice and respect for human dignity, the Organization reaches out to children, families, and individuals in San Francisco, San Mateo, and Marin counties, and offers over 30 programs located throughout the Archdiocese. An important dimension of the programs is concerted outreach to “at risk” youth, families and communities. The Organization views their employees and those they serve as strategic partners in these efforts.

#### Basis of accounting:

The financial statements include the accounts of Catholic Charities CYO and the entities Catholic Charities CYO controls and has an economic interest in: 899 Guerrero Street Inc. and 1340 Golden Gate Associates, L.P. All significant intercompany accounts and transactions are eliminated. The financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America specific to not-for-profit organizations.

#### Net asset classification:

As required by accounting principles generally accepted in the United States of America applicable to not-for-profit organizations, Catholic Charities CYO’s activities and related assets and liabilities are classified as unrestricted, temporarily restricted and permanently restricted according to the terms of the various contributions, grants, and bequests.

A summary of these classifications and the related restrictions, where applicable, are as follows:

#### ***Unrestricted Balances***

These amounts consist of funds undesignated and currently available for program activities, support services and fundraising activities.

#### ***Temporarily Restricted Balances***

These amounts consist of funds available for support of Catholic Charities CYO’s programs and capital improvements which are expendable only for purposes specified by the donor or grantor or within a specified period.

The net assets included in the temporarily restricted class at June 30, 2013 are those for which the restrictions have not yet been met.

**CATHOLIC CHARITIES CYO  
OF THE ARCHDIOCESE OF SAN FRANCISCO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2013**

**Note 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued):**

***Permanently Restricted Balances***

These amounts consist of funds that are subject to donor-imposed restrictions requiring that their principal be invested in perpetuity.

The net assets included in the permanently restricted class at June 30, 2013 relate to contributions permanently restricted whose income may be used to support various Catholic Charities CYO's programs.

**Cash and cash equivalents:**

Cash and cash equivalents include all highly liquid instruments with original maturities of three months or less, excluding cash and cash equivalents restricted by contracts with the City and County of San Francisco and those held in pooled income funds. Cash and cash equivalents are primarily held with three large commercial institutions. At times, cash deposits may exceed FDIC limits.

Catholic Charities CYO has designated and reserved cash and cash equivalents of \$3,987,784 for the year ending June 30, 2013.

**Contractually restricted cash:**

Contractually restricted cash represents amounts that are required to be maintained in separate cash accounts. These requirements are stipulated in several of the loan agreements.

**Receivables:**

Accounts receivable represent amounts billed and accrued but not yet collected for services. Catholic Charities CYO has determined it is not necessary for an allowance for doubtful accounts based on management's evaluation and adjustment of a current aging of the accounts. It is the Catholic Charities CYO's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

**Investments:**

Investments are carried at fair value, based upon quoted market prices. Realized and unrealized gains and losses arising from investments are determined on a first-in, first-out basis and are reflected in the consolidated statement of activities.

Catholic Charities CYO invests in various types of investments. Investments are exposed to various risks, such as interest rate, market and credit risk. Due to the level of risk associated with certain investments, it is at least reasonably possible that changes in the values of investments will occur in the near term and that such changes could materially affect the amounts reported in the statement of financial position.

**CATHOLIC CHARITIES CYO  
OF THE ARCHDIOCESE OF SAN FRANCISCO**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2013**

**Note 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued):**

Fair value measurements:

Professional accounting standards establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under professional accounting standards are described as follows:

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Level 1 Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Catholic Charities CYO has the ability to access.

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Level 2 Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

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Level 3 Inputs to the valuation methodology are unobservable and significant to the fair measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Split-Interest Agreements:

Catholic Charities CYO has entered into a variety of split-interest charitable agreements as follows:

***Pooled Income Fund***

Catholic Charities CYO's pooled income fund is divided into units and contributions of its donors are pooled and invested as a group. Donors are assigned a specific number of units based on the proportion of the fair value of their contributions to the total fair value of the pooled income fund on the date of the donor's entry into the fund. Until the donor's death, the donor, or the donor's designated beneficiary, is paid the actual income earned on the donor's assigned units. The estimated liability based on donor life expectancy under pooled income agreements is reflected as long-term deferred revenue. This liability is estimated at fair market value based upon the estimated life of each participant using a discount rate of 3.20%. Upon the donor's death, the value of the assigned units reverts to Catholic Charities CYO for its unrestricted use.

**CATHOLIC CHARITIES CYO  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2013**

**Note 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued):**

***Charitable Gift Annuities***

Charitable gift annuities represent the remainder beneficiary interest of various charitable gift annuities which are held by an independent trustee. These agreements provide for annual annuity payments to donors of approximately 6% to 11%. Catholic Charities CYO recognizes its beneficial interest in these assets at the time the donations are made and remeasures the present value of future distributions to be received upon maturity of the charitable gift annuity each reporting period.

***Interest in Charitable Remainder Trust***

Catholic Charities CYO's interest in a charitable remainder trust represents the estimated fair market value of distributions to be made to Catholic Charities CYO over a fixed period of time based on a discount rate of 3.20%.

**Property and equipment:**

Property and equipment is stated at cost. Depreciation is provided using the straight-line method over the estimated useful lives of the assets, which are as follows:

Buildings and improvements	27.5 years
Land improvements	10 - 20 years
Equipment and furniture	5 - 10 years
Transportation equipment	5 - 10 years
Software and website	3 years

Minor replacements, betterments, maintenance and repairs are charged to expense as incurred. Major replacements and betterments are capitalized and depreciated over the remaining useful life of the assets.

**Contributions and grants:**

Contributions and grants are recorded as revenue at the date when an unconditional promise is made. Donor-restricted contributions and grants are recorded as temporarily restricted revenues and are reclassified to unrestricted net assets when a stipulated time restriction ends or purpose restriction is accomplished. Reclassifications are reported as "Net Assets Released From Restrictions" in the statement of activities.

Government contract revenue is recognized in accordance with the terms of the contract which is generally when the related expenditures are incurred.

**Bequests:**

Bequests are recorded as revenue when there is sufficient evidence available to determine that the revenue is probable and estimable.

**Deferred revenue:**

Revenue related to grants and contracts is recognized as the related expenses are incurred. Deposits received in advance of program services being provided are reflected as current deferred revenue. Long-term deferred revenue relates to estimated liabilities under pooled income funds.

**CATHOLIC CHARITIES CYO  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2013**

**Note 1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES  
(Continued):**

Income taxes:

Catholic Charities CYO and their controlled entities are tax-exempt organizations under the provisions of the Internal Revenue Code and related California provisions. Accordingly, no provision for income taxes has been reflected in these financial statements.

Accounting for uncertain tax positions:

As of June 30, 2013, Catholic Charities CYO has had no uncertain tax positions. Catholic Charities CYO recognizes the financial statement benefit of an uncertain tax position only after considering the probability that a tax authority would sustain the position in an examination. For tax positions meeting a "more-likely-than-not" threshold, the amount recognized in the financial statements is the benefit expected to be realized upon settlement with the tax authority. For tax positions not meeting the threshold, no financial statement benefit is recognized. The Organization recognizes interest and penalties, if any, related to uncertain tax positions as income tax expense.

Income tax returns for the year prior to 2008 are no longer subject to examination by tax authorities.

Functional allocation of expenses:

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, management and general costs have been allocated among the programs and supporting services benefited based upon a percentage of total expenses. Catholic Charities CYO considers all revenues and expenses related to its operations.

Subsequent events:

No subsequent events were disclosed. Management evaluated subsequent events through December 13, 2013, the date which the financial statements were available for issue.

**Note 2. 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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

**Note 3. CONCENTRATIONS OF CREDIT RISK:**

Financial instruments which are potentially subject to credit risk consist principally of cash investments, receivables and assets of the pooled income fund. Cash and cash equivalents were held in high credit quality financial institutions in the United States of America. At times, the account balances may exceed the institutions' federally insured limits. Investments are held at brokerage firms in amounts which may exceed the guaranteed amount of the Securities Investor Protection Corporation. Management believes that the risk of loss is minimal and has not experienced any losses in its accounts.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2013**

**Note 3. CONCENTRATIONS OF CREDIT RISK (Continued):**

Program receivables consist primarily of amounts due from a limited number of federal, state and county agencies. Catholic Charities CYO has historically had minimal collection issues related to such receivables.

Contributions and bequests receivable are due from several estates, foundations and individuals. 55% of contributions receivable were due from three donors at June 30, 2013.

**Note 4. ASSET RETIREMENT OBLIGATION:**

Professional accounting standards refer to a legal obligation to perform an asset retirement activity when the timing and/or method of settlement are conditional on a future event that may or may not be within the control of the entity. A liability should be established when a legal obligation is absolute, despite the uncertainty regarding the timing and/or method of settlement. In addition, the fair value of a liability of the conditional asset retirement obligation should be recognized when incurred; generally upon acquisition, construction, or development and/or through normal operation of the asset. Professional accounting standards also clarify when an entity would have sufficient information to reasonably estimate the fair value of an asset retirement obligation.

Catholic Charities CYO adopted the applicable standard effective July 1, 2005. CCCYO's obligations relate to eventual costs of asbestos and lead paint remediation for some of its buildings. Upon adoption, Catholic Charities CYO recorded asset retirement obligations of \$1,093,259. The balance is adjusted annually and was \$1,066,857 at June 30, 2013.

**Note 5. INVESTMENTS AND SPLIT-INTEREST AGREEMENTS:**

Investments in marketable securities, at fair value, and the value of split-interest agreements at June 30, 2013 are as follows:

Investments - equity funds	\$ 716,300
Pooled income fund - mutual funds	774,160
Interest in charitable gift annuities	1,566
Interest in charitable remainder trust	<u>17,579</u>
Total	<u>\$ 1,509,605</u>

Investment return consists of the following at June 30, 2013:

Interest and dividend income	\$ 37,264
Net realized and unrealized gains on investments	30,030
Change in market value of charitable gift annuities and charitable lead trust pooled income fund	<u>(2,050)</u>
Total	<u>\$ 65,244</u>

Investments totaling \$607,880 are held within the investment pool of the Archdiocese of San Francisco, a related party.

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**Note 5. INVESTMENTS AND SPLIT-INTEREST AGREEMENTS (Continued):**

The following table sets forth, by level, the fair value hierarchy of CCCYO's assets at fair value as of June 30, 2013:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - equity funds	\$ 108,420	\$ 607,880	\$ -	\$ 716,300
Pooled income fund-mutual	774,160	-	-	774,160
Interest in charitable gift	-	1,566	-	1,566
Interest in charitable remainder trust	<u>-</u>	<u>-</u>	<u>17,579</u>	<u>17,579</u>
 Total Assets at Fair Value	 <u>\$ 882,580</u>	 <u>\$ 609,446</u>	 <u>\$ 17,579</u>	 <u>\$ 1,509,605</u>

***Level 3 Gains and Losses:***

The following table sets forth a summary of changes in the fair value of CCCYO's Level 3 assets for the year ended June 30, 2013:

	<u>Charitable Remainder Trust</u>
Balance, beginning of year	\$ 17,264
Unrealized gains/losses relating to instruments still held at the reporting date	<u>315</u>
Balance, end of year	<u>\$ 17,579</u>

**Note 6. CONTRIBUTIONS AND BEQUESTS RECEIVABLE:**

Promises to give, net of discount of present value and allowance for doubtful accounts, are due to be collected as of June 30, 2013 as follows:

Contributions and bequests receivable:		
Current		\$ 698,258
Due between one and five years	\$ 350,000	
Due in more than five years	<u>-</u>	
	350,000	
Less: unamortized discount	<u>(24,193)</u>	
 Total non-current		 <u>325,807</u>
 Total contributions and bequests receivable		 <u>\$ 1,024,065</u>

Management has determined an allowance for doubtful accounts is not necessary based on management's evaluation and adjustment of the current aging of contributions receivable.



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**Note 7. PROPERTY AND EQUIPMENT:**

Property and equipment consists of the following at June 30, 2013:

Land	\$ 1,054,741
Land Improvement	1,141,423
Buildings	11,357,074
Building improvements	2,397,997
Equipment and furniture	704,907
Software and website	64,893
Transportation equipment	4,088,968
Intangible	<u>7,841</u>
	20,817,844
Less: accumulated depreciation	<u>(10,990,303)</u>
Total property and equipment, net	<u>\$ 9,827,541</u>

**Note 8. ACCRUED EXPENSES:**

Accrued expenses consist of the following at June 30, 2013:

Accrued salaries and wages	\$ 853,025
Accrued vacation	808,613
Accrued general accounts payable	310,793
Accrued 401(k) costs	50,263
All other accrued employee withholdings	46,407
Accrued unemployment insurance	44,397
Other	<u>58,382</u>
Total	<u>\$ 2,171,880</u>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2013**

**Note 9. LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES:**

Long-term debt consists of the following at June 30, 2013:

**Loans with the City and County of San Francisco:**

Catholic Charities CYO's loan (for phase I to rehabilitate 30 rental units for use as affordable housing, whose tenants then participate in our Treasure Island Supportive Housing program) with the City and County of San Francisco, via the Mayor's Office of Housing, collateralized by a deed of trust, no monthly payments, bearing interest at 0% and maturing on September 23, 2049, which will be forgiven except in the case of an Event of Default. Secured by the rental revenue stream created from the sublease held by Catholic Charities CYO and the Treasure Island Development Authority. \$ 900,381

Catholic Charities CYO's loan (for phase II to rehabilitate 36 rental units for use as affordable housing, whose tenants then participate in our Treasure Island Supportive Housing program) with the City and County of San Francisco, via the mayor's Office of Housing, collateralized by a deed of Trust, no monthly payments, bearing interest at 0% and maturing on March 8, 2050, which will be forgiven except in the case of an Event of Default. Secured by the rental revenue stream created from the sublease held by Catholics Charities CYO and the Treasure Island Development Authority. 1,121,753

899 Guerrero Street Inc.'s loan (for our St. Joseph's Family Center programs) with the City of San Francisco, collateralized by a deed of trust, no monthly payments, bearing interest at 10% and maturing on February 9, 2040. Secured by real property with a book value of \$542,767. 400,000

1340 Golden Gate Associates, L.P. loan (for our Peter Claver Community programs) with the City and County of San Francisco, collateralized by a deed of trust, no monthly payments bearing interest at 9.17% and maturing on May 10, 2019. Secured by real property with a book value of \$665,474. 109,214

1340 Golden Gate Associates, L.P. loan (for our Peter Claver Community programs) with the City and County of San Francisco, collateralized by a deed of trust, no monthly payments bearing interest at 7.63% and maturing on September 30, 2028, if not forgiven. Secured by real property with a book value of \$665,474. 1,192,985

**Total Loans with the City and County of San Francisco** **3,724,333**

**Loans with the Archdiocese of San Francisco:**

Bus loan payable in monthly installments of \$1,882, bearing interest 5.5%, due October 1, 2014. 28,465

St. Vincent's Land with equity participation rights granted to lender, due December 31, 2020. 2,833,240

**Total Loans with the Archdiocese of San Francisco** **2,861,705**

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2013**

**Note 9. LONG-TERM DEBT AND OTHER LONG-TERM LIABILITIES (Continued):**

1340 Golden Gate Associates, L.P. loan (for our Peter Claver Community programs) with Citibank collateralized by a deed of trust, monthly installments of \$2,034 bearing interest at 3.923%, due November 2018. Secured by real property with a book value of \$665,474.	<u>\$ 115,486</u>
<b>Total Loans</b>	<b>6,701,524</b>
Less: current portion	<u>(40,230)</u>
<b>Total Loans less current portion</b>	<b><u>\$ 6,661,294</u></b>

Certain loans payable, to the City and County of San Francisco, totaling \$2,022,134 as of June 30, 2013 included in long-term debt will be forgiven in future periods provided certain conditions are met. The forgiveness of these loans will be accounted for as contribution income as and when the required conditions have been met. These conditions consist principally of Catholic Charities CYO's compliance with the terms and conditions of the loan agreements and include providing notification of changes in certain executive officers, breach of any representations, any material adverse change affecting the continued operation of the project, and any merger, dissolution or liquidation. In addition, the loan agreements provide for acceleration and accrual of interest in the event of any default.

The terms of certain of the loans also require the establishment of separate cash accounts of \$2,180,867 and reserve balances of \$3,014,421 to provide for future contractual expenses. Payments from such reserves are limited to amounts related to the project and subject to specific approval by the City and County.

Catholic Charities CYO has loans payable to the Archdiocese of San Francisco, a related party, which amounted to \$2,861,705 at June 30, 2013.

Future maturities of long-term debt outstanding at June 30, 2013 are as follows:

Year Ending <u>June 30,</u>	
2014	\$ 40,230
2015	43,386
2016	29,769
2017	23,633
2018	24,577
Thereafter	<u>6,539,929</u>
	<b><u>\$ 6,701,524</u></b>

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2013**

**Note 10. ENDOWMENTS:**

Catholic Charities CYO holds endowments for the betterment of families and children. Net changes in endowment funds were as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Balance at June 30, 2012	\$ 167,680	\$ 564,024	\$ 731,704
Net investment return	82,669	-	82,669
Appropriations	<u>(24,800)</u>	<u>-</u>	<u>(24,800)</u>
Balance at June 30, 2013	<u>\$ 225,549</u>	<u>\$ 564,024</u>	<u>\$ 789,573</u>

Investment policy:

The Organization has adopted an investment objective of long-term growth and income. The Organization expects to earn an average annual real rate of return, after inflation and fees, of 4% over a market cycle. Actual returns in a given year may vary from this amount.

Spending policy:

The Uniform Prudent Management of Institutional Funds Act, signed into law in California in 2008, moves away from the concept of corpus with its "historical dollar value" in an endowment. Charities are encouraged to develop spending policies that are responsive to short term fluctuations in the value of the fund, preserve the value of the fund for future use, and honor the charitable purpose of the fund. Catholic Charities CYO will continue to balance the endurance of its funds and the needs of the community in its granting policy and practices.

**Note 11. TEMPORARILY RESTRICTED NET ASSETS:**

Temporarily restricted net assets at June 30, 2013 are available for the following purposes:

Aging services	\$ 436,110
Housing and health stabilization services	637,290
Children and family	1,880,659
Outdoor programs	441,274
Youth residential services	527,658
General program support	<u>173,863</u>
Total temporarily restricted assets - available	<u>\$ 4,096,854</u>

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**Note 11. TEMPORARILY RESTRICTED NET ASSETS (Continued):**

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes as follows:

Aging services	\$ 341,299
Housing and health stabilization services	179,331
Children and family	1,108,036
Outdoor programs	190,556
Youth residential services	630,556
General program support	<u>422,857</u>
Total temporarily restricted assets - released	<u>\$ 2,872,635</u>

**Note 12. EMPLOYEE BENEFIT PLANS:**

Catholic Charities CYO maintains deferred compensation plans for union and non-union employees, respectively. Catholic Charities CYO contributes a percentage of the employee's compensation as its contribution. The expense under both plans aggregated \$485,420 for the year ended June 30, 2013.

**Note 13. ALAMEDA COUNTY PROGRAMS:**

The County of Alameda requires contractors who receive funding through the County to identify all County programs in accordance with County audit requirements. The following is a list of programs in which funding was received through the County for fiscal year ended June 30, 2013.

Program Name	Contract Number	Exhibit Number	Contract Period	Contract Amount
Catholic Charities CYO dba St. Vincent's School for Boys	Procurement Contract #8016	N/A	7/1/12 - 6/30/13	\$ 450,320

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2013**

**Note 14. COMMITMENTS AND CONTINGENCIES:**

Commitments:

Catholic Charities CYO leases office and program space and equipment for its operations under various non-cancelable operating leases. The aggregate remaining minimum rental payments required under the terms of existing leases as of June 30, 2013 are as follows:

Year Ending <u>June 30,</u>	
2014	\$ 830,154
2015	340,395
2016	165,771
2017	149,767
2018	151,553
Thereafter	<u>1,208,461</u>
	<u>\$ 2,846,101</u>

Rental expense, on a straight line basis, amounted to \$1,087,599 for the year ended June 30, 2013.

Contingencies:

Catholic Charities CYO is a recipient of federal and state awards. These awards are subject to audit and final acceptance by federal and state granting agencies. The amount of expenditures that may be disallowed by the grantors, if any, cannot be determined at this time, although Catholic Charities CYO expects such amounts, if any, to be immaterial.

Catholic Charities CYO is involved from time to time in routine claims related to its operations. Management is of the opinion that such matters would not result in any contingencies that are material to its financial position.