



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

**CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2015**



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

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JUNE 30, 2015**

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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, 2015, 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, 2015, 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 2014 financial statements, and our report dated December 17, 2014, 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, 2014, 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 9, 2015

# CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<u>ASSETS</u>	<u>June 30, 2015</u>	<u>June 30, 2014</u>
<b>CURRENT ASSETS:</b>		
Cash and cash equivalents	\$ 12,335,092	\$ 10,154,528
Investments	763,135	821,085
Program receivables	5,984,498	5,171,529
Contributions receivable	612,847	870,509
Prepaid expenses and other assets	401,489	137,735
<b>TOTAL CURRENT ASSETS</b>	<b>20,097,061</b>	<b>17,155,386</b>
Contractually restricted cash	2,158,341	2,114,447
Assets of pooled income fund	768,075	797,679
Interest in charitable trusts and annuities	17,817	18,931
Contributions receivable	895,787	242,530
Property and equipment, net	11,089,333	10,425,262
Other long-term assets	100,842	102,536
<b>TOTAL ASSETS</b>	<b>\$ 35,127,256</b>	<b>\$ 30,856,771</b>
<b><u>LIABILITIES AND NET ASSETS</u></b>		
<b>CURRENT LIABILITIES:</b>		
Accounts payable	\$ 813,628	\$ 843,374
Accrued expenses	2,854,563	2,484,100
Current portion of notes payable	20,858	28,083
Deferred revenue	718,818	444,160
<b>TOTAL CURRENT LIABILITIES</b>	<b>4,407,867</b>	<b>3,799,717</b>
Notes payable	6,600,366	6,632,245
Contractual reserves	3,103,073	2,979,650
Conditional asset retirement obligations	804,076	803,020
Long-term deferred revenue and deferred compensation	127,450	145,227
<b>TOTAL LIABILITIES</b>	<b>15,042,832</b>	<b>14,359,859</b>
<b>NET ASSETS:</b>		
Unrestricted	14,295,767	11,844,291
Temporarily restricted	4,724,877	4,088,397
Permanently restricted	1,063,780	564,224
<b>TOTAL NET ASSETS</b>	<b>20,084,424</b>	<b>16,496,912</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 35,127,256</b>	<b>\$ 30,856,771</b>

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, 2014)

	Year Ended June 30, 2015			Year Ended June 30, 2014	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Comparative Totals
<b>SUPPORT AND REVENUE FROM OPERATIONS:</b>					
Public support:					
Government service contracts	\$ 25,612,588	\$ 66,720	\$ -	\$ 25,679,308	\$ 24,509,484
Contributions and foundation grants	1,546,174	2,505,369	20,585	4,072,128	3,441,059
Bequests	1,027,503	45,579	478,971	1,552,053	807,711
Capital/Special Projects	-	336,892	-	336,892	382,355
Special events	-	163,553	-	163,553	265,958
Other revenue:					
Program service fees	8,843,937	-	-	8,843,937	8,354,809
Rental income	1,834,703	-	-	1,834,703	1,824,754
Investment return	10,813	480	-	11,293	142,287
Other income	147,048	-	-	147,048	255,194
Net assets released from restrictions	2,482,113	(2,482,113)	-	-	-
<b>TOTAL SUPPORT AND REVENUE FROM OPERATIONS</b>	<b>41,504,879</b>	<b>636,480</b>	<b>499,556</b>	<b>42,640,915</b>	<b>39,983,611</b>
<b>OPERATING EXPENSES:</b>					
Program services:					
Aging support services	1,562,850	-	-	1,562,850	1,401,136
Behavioral health services	318,611	-	-	318,611	437,120
Children and youth services	15,329,884	-	-	15,329,884	15,398,793
Homelessness and housing services	12,050,783	-	-	12,050,783	12,276,654
Refugee and immigrants services	629,317	-	-	629,317	485,710
Auxiliary services	3,694,083	-	-	3,694,083	3,668,171
<b>Total program services</b>	<b>33,585,528</b>	<b>-</b>	<b>-</b>	<b>33,585,528</b>	<b>33,667,584</b>
Supporting services:					
Administration	4,364,159	-	-	4,364,159	3,967,442
Development	1,103,716	-	-	1,103,716	1,516,671
<b>TOTAL OPERATING EXPENSES</b>	<b>39,053,403</b>	<b>-</b>	<b>-</b>	<b>39,053,403</b>	<b>39,151,697</b>
<b>CHANGE IN NET ASSETS FROM OPERATIONS</b>	<b>2,451,476</b>	<b>636,480</b>	<b>499,556</b>	<b>3,587,512</b>	<b>831,914</b>
NET ASSETS, beginning of year	11,844,291	4,088,397	564,224	16,496,912	15,664,998
<b>NET ASSETS, end of year</b>	<b>\$ 14,295,767</b>	<b>\$ 4,724,877</b>	<b>\$ 1,063,780</b>	<b>\$ 20,084,424</b>	<b>\$ 16,496,912</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, 2014)

	Year Ended June 30, 2015					Year Ended June 30, 2014 Comparative Totals
	Supporting Services			Total Administration and Development	Total Program and Support Services	
	Program Services	Administration	Development			
Salaries and wages	\$ 16,121,149	\$ 2,278,203	\$ 454,029	\$ 2,732,232	\$ 18,853,381	\$ 18,955,263
Employee benefits and payroll taxes	5,585,650	535,633	100,300	635,933	6,221,583	6,239,339
Total salaries and related expenses	21,706,799	2,813,836	554,329	3,368,165	25,074,964	25,194,602
Occupancy costs	2,630,406	294,199	112,647	406,846	3,037,252	2,971,471
Financial assistance	2,643,648	-	-	-	2,643,648	2,581,516
Professional fees	1,460,463	722,512	279,796	1,002,308	2,462,771	2,562,099
Transportation costs and travel	1,327,437	17,662	2,443	20,105	1,347,542	1,533,924
Program food	987,671	86	-	86	987,757	951,797
Depreciation	777,956	120,620	-	120,620	898,576	722,048
Supplies	605,823	26,809	15,273	42,082	647,905	665,501
Insurance	268,256	8,002	2,307	10,309	278,565	551,662
Telephone and postage	357,653	157,094	35,151	192,245	549,898	439,929
Miscellaneous	316,029	85,643	19,870	105,513	421,542	404,293
Child related	190,087	-	-	-	190,087	252,195
Printing and publication	29,037	75,568	52,274	127,842	156,879	207,115
Conferences and meetings	98,584	46,700	31,233	77,933	176,517	202,061
Contractually required reserves	492,431	-	-	-	492,431	167,537
Interest	1,212	-	-	-	1,212	7,784
Adjustment to insurance accrual	(307,964)	(4,572)	(1,607)	(6,179)	(314,143)	-
Asset remediation expense reduction	-	-	-	-	-	(263,837)
Total direct expenses	33,585,528	4,364,159	1,103,716	5,467,875	39,053,403	39,151,697
Indirect allocation	5,343,597	(4,364,159)	(979,438)	(5,343,597)	-	-
Total expenses	<u>\$ 38,929,125</u>	<u>\$ -</u>	<u>\$ 124,278</u>	<u>\$ 124,278</u>	<u>\$ 39,053,403</u>	<u>\$ 39,151,697</u>

See notes to consolidated financial statements.

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

**CONSOLIDATED STATEMENT OF PROGRAM SERVICES**

Year Ended June 30, 2015

	Aging Support Services	Behavioral Health Services	Children and Youth	Homelessness and Housing Services	Refugees and Immigrants Services	Auxiliary Services	Total Program Services
Salaries and wages	\$ 844,891	\$ 202,911	\$ 8,059,223	\$ 4,902,169	\$ 376,625	\$ 1,735,330	\$ 16,121,149
Employee benefits and payroll taxes	249,577	62,295	2,761,299	1,739,964	102,872	669,643	5,585,650
Total salaries and related expenses	1,094,468	265,206	10,820,522	6,642,133	479,497	2,404,973	21,706,799
Occupancy costs	156,980	25,191	974,946	1,256,752	64,557	151,980	2,630,406
Financial assistance	-	-	630,689	1,985,194	27,765	-	2,643,648
Professional fees	92,320	3,796	657,256	593,745	23,524	89,822	1,460,463
Transportation costs and travel	58,657	2,450	550,513	55,995	3,546	656,276	1,327,437
Program food	71,142	155	518,978	397,396	-	-	987,671
Depreciation	8,784	6,685	377,875	132,633	1,496	250,483	777,956
Supplies	29,308	1,968	351,422	215,727	4,230	3,168	605,823
Insurance	7,580	5,413	93,504	128,154	3,972	29,633	268,256
Telephone and postage	19,346	8,981	152,328	121,181	9,078	46,739	357,653
Miscellaneous	15,748	1,104	67,503	103,757	7,176	120,741	316,029
Child related	-	-	190,087	-	-	-	190,087
Printing and publication	3,805	119	16,128	9,187	(1,528)	1,326	29,037
Conferences and meetings	9,994	1,298	62,537	16,460	8,295	-	98,584
Contractually required reserves	-	-	-	492,431	-	-	492,431
Interest	-	-	1,136	76	-	-	1,212
Adjustment to insurance accrual	(5,282)	(3,755)	(135,540)	(100,038)	(2,291)	(61,058)	(307,964)
Asset remediation expense reduction	-	-	-	-	-	-	-
Total direct expenses	1,562,850	318,611	15,329,884	12,050,783	629,317	3,694,083	33,585,528
Indirect allocation	252,609	58,649	2,468,689	1,817,243	99,815	646,592	5,343,597
Totals	\$ 1,815,459	\$ 377,260	\$ 17,798,573	\$ 13,868,026	\$ 729,132	\$ 4,340,675	\$ 38,929,125

See notes to consolidated financial statements.



# CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

## CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended June 30, 2015	Year Ended June 30, 2014
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Change in net assets	\$ 3,587,512	\$ 831,914
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	898,167	722,048
Permanently restricted contributions	(499,456)	-
Net realized and unrealized gain on investments	9,557	(141,393)
Contribution of investments	(59,157)	(80,270)
Change in asset retirement obligation	1,056	(263,837)
Change in operating assets and liabilities:		
Change in contractually restricted cash	(43,894)	66,420
Receivables	(1,208,564)	(364,269)
Prepaid expenses and other assets	(260,946)	112,967
Accounts payable	(29,746)	163,218
Accrued expenses	370,463	312,220
Deferred revenue and deferred compensation	256,881	33,934
	3,021,873	1,392,952
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Contractually required reserves	\$ 123,423	\$ (34,771)
Proceeds from sales and maturities of investments	142,254	93,359
Purchases of property and equipment	(1,567,338)	(1,319,769)
	(1,301,661)	(1,261,181)
<b>NET CASH USED BY INVESTING ACTIVITIES</b>		
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Payments on notes payable	(39,104)	(41,196)
Permanently restricted contributions received	499,456	-
	460,352	(41,196)
<b>NET CASH PROVIDED (USED) BY FINANCING ACTIVITIES</b>		
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	2,180,564	90,575
<b>CASH AND CASH EQUIVALENTS, beginning of year</b>	10,154,528	10,063,953
<b>CASH AND CASH EQUIVALENTS, end of year</b>	\$ 12,335,092	\$ 10,154,528
<b>SUPPLEMENTAL INFORMATION:</b>		
Cash paid for interest	\$ 1,212	\$ 7,784

See notes to consolidated financial statements.

# CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2015

### **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, 2015 are those for which the restrictions have not yet been met.

**CATHOLIC CHARITIES CYO  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2015**

**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, 2015 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 \$5,350,438 for the year ending June 30, 2015.

**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 provides an allowance for doubtful accounts based on management's evaluation and adjustment of a current aging of the accounts. Based on these factors, there is a provision for doubtful accounts of \$30,000 as of June 30, 2015. 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  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2015**

**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 2.89%. Upon the donor's death, the value of the assigned units reverts to Catholic Charities CYO for its unrestricted use.

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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2015**

**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 6.3% to 9.6%. 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 2.89% or 2.83%, depending on the length of the period.

**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, 2015**

**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. The Organization's tax returns are generally subject to examination by Federal and State taxing authorities for three and four years, respectively.

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 9, 2015, 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, and cash equivalent 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.

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. 66% of contributions receivable were due from three donors at June 30, 2015.

**CATHOLIC CHARITIES CYO  
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**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2015**

**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. Catholic Charities CYO'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.

For periods subsequent to initial measurement, an entity shall recognize period-to-period changes in the liability resulting from revisions in the amount of the original estimate of undiscounted cash flows. During the year ending June 30, 2014, Catholic Charities CYO obtained a revised estimate of undiscounted cost of the conditional asset retirement obligation. The square footage of property subject to the asset retirement obligation declined by 36% while the unadjusted price/sq. ft. for the remediation increased by 12%. The resulting balance of the asset remediation was \$803,020 at June 30, 2014, using revised estimated cash flows. The balance is adjusted annually and was \$804,076 at June 30, 2015.

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

Investments in marketable securities, at fair value, and the value of split-interest agreements at June 30, 2015 are as follows:

Investments - equity funds	\$ 763,135
Pooled income fund - mutual funds	768,075
Interest in charitable remainder trust	<u>17,817</u>
Total	<u>\$ 1,549,027</u>

Investment return consists of the following at June 30, 2015:

Interest and dividend income	\$ 1,736
Net realized and unrealized gains on investments	<u>9,557</u>
Total	<u>\$ 11,293</u>

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

Investments totaling \$663,295 are held within the investment pool of the Archdiocese of San Francisco, a related party.

The following table sets forth, by level, the fair value hierarchy of Catholic Charities CYO's assets at fair value as of June 30, 2015:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - equity funds	\$ 99,840	\$ 663,295	\$ -	\$ 763,135
Pooled income fund - mutual	768,075	-	-	768,075
Interest in charitable gift annuities	-	-	-	-
Interest in charitable remainder trust	-	-	17,817	17,817
Total assets at fair value	<u>\$ 867,915</u>	<u>\$ 663,295</u>	<u>\$ 17,817</u>	<u>\$ 1,549,027</u>

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

The following table sets forth a summary of changes in the fair value of Catholic Charities CYO's Level 3 assets for the year ended June 30, 2015:

	<u>Charitable Remainder Trust</u>
Balance, beginning of year	\$ 18,931
Unrealized gains/losses relating to instruments still held at the reporting date	<u>(1,114)</u>
Balance, end of year	<u>\$ 17,817</u>

**Note 6. CONTRIBUTIONS RECEIVABLE:**

Promises to give, net of discount of present value and allowance for doubtful accounts, are due to be collected as of June 30, 2015 as follows:

Contributions and bequests receivable:		
Current		\$ 612,847
Due between one and five years	\$ 900,000	
Less: unamortized discount	<u>(4,213)</u>	
Total non-current		<u>895,787</u>
Total contributions and bequests receivable		<u>\$ 1,508,634</u>



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**Note 7. PROPERTY AND EQUIPMENT:**

Property and equipment consists of the following at June 30, 2015:

Land	\$ 1,054,741
Land Improvement	1,567,282
Buildings	11,958,929
Building improvements	3,067,026
Equipment and furniture	1,071,072
Software and website	255,893
Transportation equipment	4,673,568
Construction in process	34,503
Intangible	<u>7,841</u>
	23,690,855
Less: accumulated depreciation	<u>(12,601,522)</u>
Total property and equipment, net	<u>\$ 11,089,333</u>

**Note 8. ACCRUED EXPENSES:**

Accrued expenses consist of the following at June 30, 2015:

Accrued salaries and wages	\$ 1,165,577
Accrued vacation	862,127
Accrued general accounts payable	523,731
Accrued 401(k) costs	58,529
All other accrued employee withholdings	162,381
Accrued unemployment insurance	25,792
Other	<u>56,426</u>
Total	<u>\$ 2,854,563</u>

Catholic Charities CYO uses a combination of insurance and self-insurance plans to provide for the potential liabilities for general liability, property insurance, director and officers' liability insurance and vehicle liability. Liabilities associated with the risks are estimated, in part, by considering actuarial assumptions. While Catholic Charities CYO believes that the assumptions are appropriate, the estimated accruals could be significantly affected if future occurrences and claims differ from these assumptions.

Catholic Charities CYO management has determined that underlying events triggering self-insurance accruals on unasserted claims are possible but not probable. Therefore accrued general accounts payable for the year ended June 30, 2015 included the elimination of an accrual of \$314,143.

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

Long-term debt consists of the following at June 30, 2015:

	<u>June 30, 2015</u>
<b>Loans with the City and County of San Francisco:</b>	
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 \$623,692.	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 \$422,754.	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 of \$422,754.	<u>1,181,465</u>
<b>Total loans with the City and County of San Francisco</b>	<b><u>3,712,813</u></b>
<b>Loans with the Archdiocese of San Francisco:</b>	
St. Vincent's Land with equity participation rights granted to lender, due December 31, 2020.	<u>2,833,240</u>
<b>Total loans with the Archdiocese of San Francisco</b>	<b><u>2,833,240</u></b>

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**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 \$422,754.	June 30, 2015 <hr/> \$ 75,171
<b>Total loans</b>	<b>6,621,884</b>
Less: current portion	<u>(20,858)</u>
<b>Total loans less current portion</b>	<b><u>\$ 6,600,366</u></b>

Certain loans payable, to the City and County of San Francisco, totaling \$2,022,134 as of June 30, 2015 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 \$2,158,341 and reserve balances of \$3,103,073 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 \$2,833,240 at June 30, 2015.

Future maturities of long-term debt outstanding at June 30, 2015 are as follows:

Years Ending <u>June 30,</u>	
2016	\$ 20,858
2017	23,633
2018	24,577
2019	115,317
Thereafter	<u>6,436,839</u>
	 <u>\$ 6,621,224</u>

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**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, 2014	\$ 297,948	\$ 564,224	\$ 862,172
Net investment return	(935)	-	(935)
Contributions	-	499,555	499,555
Appropriations	<u>(31,693)</u>	<u>-</u>	<u>(31,693)</u>
Balance at June 30, 2015	<u>\$ 265,320</u>	<u>\$ 1,063,779</u>	<u>\$ 1,329,099</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 were held for the following purposes at June 30, 2015:

	<u>June 30, 2014</u>	<u>Contributions</u>	<u>Released from Restrictions</u>	<u>June 30, 2015</u>
Aging services	\$ 256,230	\$ 201,106	\$ 277,041	\$ 180,295
Behavioral				
health services	249,074	23,465	94,988	177,551
Children and youth	599,028	872,243	812,560	658,711
Homelessness and				
housing services	1,046,724	1,501,352	881,704	1,666,372
Refugee and				
immigrant services	223,302	91,500	102,831	211,971
Auxiliary services	178,453	-	60,971	117,482
Administrative	181,606	90,176	75,000	196,782
Advancement	<u>1,353,980</u>	<u>338,751</u>	<u>177,018</u>	<u>1,515,713</u>
Total temporarily restricted net assets	<u>\$ 4,088,397</u>	<u>\$ 3,118,593</u>	<u>\$ 2,482,113</u>	<u>\$ 4,724,877</u>

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**Note 12. EMPLOYEE BENEFIT PLANS:**

Catholic Charities CYO maintains deferred compensation plans, under section 401(k), for union and non-union employees. Catholic Charities CYO contributes a percentage of the employee's compensation as its contribution. The expense under both plans aggregated \$434,062 for the year ended June 30, 2015.

**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, 2015.

Program Name	Contract Number	Exhibit Number	Contract Period	Contract Amount
Catholic Charities CYO dba St. Vincent's School for Boys	Procurement Contract #10131	N/A	7/1/14 - 6/30/15	\$ 313,525

**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, 2015 are as follows:

Years Ending June 30,	
2016	\$ 770,328
2017	766,898
2018	765,048
2019	524,888
Thereafter	<u>3,023,100</u>
	<u>\$ 5,850,262</u>

Rental expense, on a straight line basis, amounted to \$1,165,401 for the year ended June 30, 2015.

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.