



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

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2016



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

**TABLE OF CONTENTS
JUNE 30, 2016**

Independent auditors' report	2 - 3
Consolidated statements of financial position	4
Consolidated statement of activities	5
Consolidated statement of functional expenses	6
Consolidated statement of program services	7
Consolidated statements of cash flows	8
Notes to consolidated financial statements	9 - 20



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, 2016, 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 consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated 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, 2016, 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 2015 consolidated financial statements, and our report dated December 9, 2015, expressed an unqualified opinion on those audited consolidated financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Riva Accountancy Corporation

Certified Public Accountants

San Francisco, California
December 16, 2016

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

<u>ASSETS</u>	<u>June 30, 2016</u>	<u>June 30, 2015</u>
Cash and cash equivalents	\$ 12,237,065	\$ 12,335,092
Investments	1,222,343	763,135
Program receivables	6,674,043	5,984,498
Contributions and bequests receivable	2,941,745	1,508,634
Prepaid expenses and other assets	339,266	401,489
Contractually restricted cash	2,224,554	2,158,341
Assets of pooled income fund	772,651	768,075
Interest in charitable trusts and annuities	16,514	17,817
Property and equipment, net	11,053,948	11,089,333
Other long-term assets	107,713	100,842
	<u>37,589,842</u>	<u>35,127,256</u>
TOTAL ASSETS	\$ 37,589,842	\$ 35,127,256
 <u>LIABILITIES AND NET ASSETS</u> 		
Accounts payable	\$ 1,036,868	\$ 813,628
Accrued expenses	3,000,529	2,854,563
Deferred revenue and deferred compensation	862,893	846,268
Notes payable	6,603,125	6,621,224
Contractual reserves	3,540,817	3,103,073
Conditional asset retirement obligations	805,185	804,076
	<u>15,849,416</u>	<u>15,042,832</u>
TOTAL LIABILITIES	15,849,416	15,042,832
 NET ASSETS:		
Unrestricted		
Undesignated	9,412,148	7,234,492
Investment in property and equipment, less related debt	7,097,416	7,061,275
	<u>16,509,564</u>	<u>14,295,767</u>
Temporarily restricted	4,100,233	4,724,877
Permanently restricted	1,130,629	1,063,780
	<u>5,230,862</u>	<u>5,788,657</u>
TOTAL NET ASSETS	21,740,426	20,084,424
	<u>\$ 37,589,842</u>	<u>\$ 35,127,256</u>
TOTAL LIABILITIES AND NET ASSETS	\$ 37,589,842	\$ 35,127,256

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, 2015)

	Year Ended June 30, 2016			Year Ended June 30, 2015	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Comparative Totals
SUPPORT AND REVENUE FROM OPERATIONS:					
Public support:					
Government service contracts	\$ 23,816,137	\$ -	\$ -	\$ 23,816,137	\$ 25,679,308
Contributions and foundation grants	1,544,297	929,546	66,849	2,540,692	3,624,966
Bequests	2,296,736	34,841	-	2,331,577	1,552,053
Capital/Special Projects	-	371,346	-	371,346	336,892
Special events	-	565,520	-	565,520	610,715
Other revenue:					
Program service fees	9,549,452	-	-	9,549,452	8,843,937
Rental income	1,691,339	-	-	1,691,339	1,834,703
Investment return	14,101	43,781	-	57,882	11,293
Other income	453,995	-	-	453,995	147,048
Net assets released from restrictions	2,569,678	(2,569,678)	-	-	-
TOTAL SUPPORT AND REVENUE FROM OPERATIONS	41,935,735	(624,644)	66,849	41,377,940	42,640,915
OPERATING EXPENSES:					
Program services:					
Aging support services	1,459,299	-	-	1,459,299	1,562,850
Behavioral health services	223,011	-	-	223,011	318,611
Children and youth services	15,015,082	-	-	15,015,082	15,329,884
Homelessness and housing services	12,352,141	-	-	12,352,141	12,050,783
Refugee and immigrants services	830,909	-	-	830,909	629,317
Auxiliary services	4,312,580	-	-	4,312,580	3,694,083
Total program services	34,193,021	-	-	34,193,021	33,585,528
Supporting services:					
Administration	4,329,718	-	-	4,329,718	4,364,159
Development	1,199,199	-	-	1,199,199	1,103,716
TOTAL OPERATING EXPENSES	39,721,938	-	-	39,721,938	39,053,403
CHANGE IN NET ASSETS FROM OPERATIONS	2,213,797	(624,644)	66,849	1,656,002	3,587,512
NET ASSETS, beginning of year	14,295,767	4,724,877	1,063,780	20,084,424	16,496,912
NET ASSETS, end of year	\$ 16,509,564	\$ 4,100,233	\$ 1,130,629	\$ 21,740,426	\$ 20,084,424

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, 2015)

	Year Ended, June 30, 2016					Year Ended June 30, 2015 Comparative Totals
	Supporting Services			Total Administration and Development	Total Program and Support Services	
	Program Services	Administration	Development			
Salaries and wages	\$ 16,281,993	\$ 2,297,773	\$ 527,555	\$ 2,825,328	\$ 19,107,320	\$ 18,853,381
Employee benefits and payroll taxes	5,412,513	600,804	148,784	749,588	6,162,101	6,221,583
Total salaries and related expenses	21,694,505	2,898,577	676,338	3,574,916	25,269,421	25,074,964
Occupancy costs	2,720,205	181,469	53,187	234,656	2,954,861	3,037,252
Professional fees	1,382,247	728,813	280,196	1,009,009	2,391,256	2,462,771
Financial assistance	2,145,241	-	2,455	2,455	2,147,696	2,643,648
Transportation costs and travel	1,737,022	28,953	2,236	31,189	1,768,211	1,347,542
Program food	1,053,683	39	66	105	1,053,788	987,757
Depreciation	865,993	169,072	-	169,072	1,035,065	898,576
Supplies	615,970	20,184	12,575	32,759	648,729	647,905
Telephone and postage	463,894	70,253	45,118	115,371	579,266	549,898
Contractually required reserves	555,240	-	-	-	555,240	492,431
Miscellaneous	313,146	120,139	21,079	141,218	454,364	421,542
Insurance	319,308	19,303	1,545	20,848	340,156	278,565
Child related	204,560	-	-	-	204,560	190,087
Printing and publication	27,745	35,461	101,499	136,960	164,706	156,879
Conferences and meetings	87,471	57,454	2,905	60,359	147,830	176,517
Interest	6,789	-	-	-	6,789	1,212
Adjustment to insurance accrual	-	-	-	-	-	(314,143)
Total direct expenses	34,193,021	4,329,718	1,199,199	5,528,917	39,721,938	39,053,403
Indirect allocation	5,445,082	(4,329,718)	(1,115,364)	(5,445,082)	-	-
Total expenses	\$ 39,638,103	\$ -	\$ 83,835	\$ 83,835	\$ 39,721,938	\$ 39,053,403

See notes to consolidated financial statements.

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

CONSOLIDATED STATEMENT OF PROGRAM SERVICES

Year Ended, June 30, 2016

	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	\$ 781,854	\$ 139,885	\$ 8,090,237	\$ 4,838,169	\$ 552,013	\$ 1,879,836	\$ 16,281,993
Employee benefits and payroll taxes	234,308	34,037	2,691,353	1,636,266	149,988	666,561	5,412,513
Total salaries and related expenses	1,016,162	173,922	10,781,590	6,474,435	702,001	2,546,396	21,694,505
Occupancy costs	158,271	23,048	1,023,100	1,291,904	41,505	182,378	2,720,205
Financial assistance	-	-	91,627	2,049,525	4,090	-	2,145,241
Transportation costs and travel	111,630	449	530,144	61,599	4,833	1,028,367	1,737,022
Professional fees	21,577	2,505	614,280	643,593	30,638	69,654	1,382,247
Program food	59,165	215	584,885	409,418	-	-	1,053,683
Depreciation	7,763	5,982	397,090	192,718	2,042	260,399	865,993
Supplies	22,743	2,069	348,396	231,696	8,169	2,897	615,970
Contractually required reserves	-	-	-	555,240	-	-	555,240
Telephone	22,968	8,630	194,836	175,983	16,479	44,997	463,894
Insurance	7,677	3,723	133,916	153,474	1,670	18,848	319,308
Miscellaneous	25,286	2,259	39,103	84,015	6,297	156,187	313,146
Child related	-	-	204,560	-	-	-	204,560
Conferences and meetings	5,346	150	54,371	16,110	11,212	282	87,471
Interest	-	-	1,109	5,680	-	-	6,789
Printing and publication	712	59	16,074	6,752	1,973	2,175	27,745
Total direct expenses	1,459,299	223,011	15,015,082	12,352,141	830,909	4,312,580	34,193,021
Indirect allocation	247,003	34,815	2,474,234	1,842,179	119,309	727,543	5,445,082
Totals	<u>\$ 1,706,302</u>	<u>\$ 257,825</u>	<u>\$ 17,489,315</u>	<u>\$ 14,194,319</u>	<u>\$ 950,219</u>	<u>\$ 5,040,122</u>	<u>\$ 39,638,103</u>

See notes to consolidated financial statements.

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended June 30, 2016	Year Ended June 30, 2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 1,656,002	\$ 3,587,512
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,035,065	898,167
Permanently restricted contributions	(66,849)	(499,456)
Gain on asset disposal	(6,644)	-
Net realized and unrealized gain on investments	(60,077)	9,557
Contribution of investments	(402,622)	(59,157)
Change in asset retirement obligation	1,109	1,056
Change in operating assets and liabilities:		
Change in contractually restricted cash	(66,213)	(43,894)
Receivables	(2,122,656)	(1,208,564)
Prepaid expenses and other assets	56,655	(260,946)
Accounts payable	223,240	(29,746)
Accrued expenses	145,966	370,463
Deferred revenue and deferred compensation	16,625	256,881
NET CASH PROVIDED BY OPERATING ACTIVITIES	409,601	3,021,873
CASH FLOWS FROM INVESTING ACTIVITIES:		
Contractually required reserves	437,744	123,423
Proceeds from sales and maturities of investments	477,884	142,254
Proceeds from sales of fixed assets	6,644	-
Purchases of investments	(478,970)	-
Purchases of property and equipment	(999,679)	(1,567,338)
NET CASH USED BY INVESTING ACTIVITIES	(556,378)	(1,301,661)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on notes payable	(18,099)	(39,104)
Permanently restricted contributions received	66,849	499,456
NET CASH PROVIDED BY FINANCING ACTIVITIES	48,750	460,352
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(98,027)	2,180,564
CASH AND CASH EQUIVALENTS, beginning of year	12,335,092	10,154,528
CASH AND CASH EQUIVALENTS, end of year	\$ 12,237,065	\$ 12,335,092
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	\$ 6,789	\$ 1,212

See notes to consolidated financial statements.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2016

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, 2016 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, 2016

**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, 2016 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.

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, 2016. 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, 2016

**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:

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.

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.

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 2.01%. Upon the donor's death, the value of the assigned units reverts to Catholic Charities CYO for its unrestricted use.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2016

**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 8.7%. Catholic Charities CYO recognizes its beneficial interest in these assets at the time the donations are made and re-measures 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 2.01% or 1.86%, 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 service contracts:

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
OF THE ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2016

**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 16, 2016, 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. 75% of contributions receivable were due from three donors at June 30, 2016.

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
OF THE ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2016

Note 4. ASSET RETIREMENT OBLIGATION (Continued):

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 \$805,185 at June 30, 2016.

Note 5. INVESTMENTS AND SPLIT-INTEREST AGREEMENTS:

Investments in marketable securities, at fair value, and the value of split-interest agreements at June 30, 2016 are as follows:

Investments - equity funds	\$ 1,222,343
Pooled income fund - mutual funds	772,651
Interest in charitable remainder trust	<u>16,514</u>
Total	<u>\$ 2,011,508</u>

Investment return consists of the following at June 30, 2016:

Interest and dividend income	\$ 12,560
Change in value of split interest agreements	33,524
Net realized and unrealized gains on investments	<u>11,798</u>
Total	<u>\$ 57,882</u>

Investments totaling \$1,109,855 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, 2016

	Level 1	Level 2	Level 3	Total
Investments - equity funds	\$ 112,488	\$ 1,109,855	\$ -	\$ 1,222,343
Pooled income fund - mutual	772,651	-	-	772,651
Interest in charitable remainder trust	-	-	16,514	<u>16,514</u>
Total assets at fair value	<u>\$ 885,139</u>	<u>\$ 1,109,855</u>	<u>\$ 16,514</u>	<u>\$ 2,011,508</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2016

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

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, 2016:

	Charitable Remainder Trust
Balance, beginning of year	\$ 17,817
Unrealized gains/losses relating to instruments still held at the reporting date	(1,303)
Balance, end of year	\$ 16,514

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, 2016 as follows:

Contributions and bequests receivable:	
Current bequests	\$ 1,987,500
Current contributions	669,681
Contributions due between one and five years	\$ 287,500
Less: unamortized discount	(2,936)
Total non-current	284,564
Total contributions and bequests receivable	\$ 2,941,745

Note 7. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at June 30, 2016:

Land	\$ 1,077,736
Land Improvement	1,567,282
Buildings	12,284,608
Building improvements	3,158,827
Equipment and furniture	1,091,872
Software and website	255,893
Transportation equipment	4,898,225
Construction in process	247,285
Intangible	7,841
	24,589,569
Less: accumulated depreciation	(13,535,621)
Total property and equipment, net	\$ 11,053,948

Investment in property & equipment, net of related debt is derived from \$11,053,948 property and equipment, net, less \$3,956,532 debt related to property and equipment.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2016

Note 8. ACCRUED EXPENSES:

Accrued expenses consist of the following at June 30, 2016:

Accrued salaries and wages	\$ 1,214,187
Accrued vacation	871,525
Accrued general accounts payable	563,242
Accrued 401(k) costs	66,890
Accrued unemployment insurance	27,989
All other accrued employee withholdings	168,497
Other	<u>88,199</u>
Total	<u><u>\$ 3,000,529</u></u>

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

Long-term debt consists of the following at June 30, 2016:

Loans with the City and County of San Francisco:

	June 30, 2016
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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2016

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 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 \$351,225.	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 \$351,225.	<u>1,181,465</u>
Total loans with the City and County of San Francisco	<u>3,712,813</u>
Loans with the Archdiocese of San Francisco:	
St. Vincent's Land with equity participation rights granted to lender, due December 31, 2020.	<u>2,833,240</u>
Total loans with the Archdiocese of San Francisco	<u>2,833,240</u>
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 \$351,225.	<div style="text-align: right;"> June 30, 2015 <hr style="width: 50px; margin: 0 auto;"/> \$ 57,072 </div>
Total loans	6,603,125
Less: current portion	<u>(21,484)</u>
Total loans less current portion	<u>\$ 6,581,641</u>

Certain loans payable, to the City and County of San Francisco, totaling \$2,022,134 as of June 30, 2016 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 \$2,224,554 and reserve balances of \$3,540,817 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
OF THE ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2016

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

Catholic Charities CYO has loans payable to the Archdiocese of San Francisco, a related party, which amounted to \$2,833,240 at June 30, 2016.

Future maturities of long-term debt outstanding at June 30, 2016 are as follows:

Years Ending June 30,	
2017	\$ 21,484
2018	24,577
2019	120,225
2020	2,833,240
Thereafter	<u>3,603,599</u>
	<u>\$ 6,603,125</u>

Note 10. ENDOWMENTS:

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

	Temporarily Restricted	Permanently Restricted	Total
Balance at June 30, 2015	\$ 265,319	\$ 1,063,780	\$ 1,329,099
Net investment return	11,844	-	11,844
Contributions	-	66,849	66,849
Appropriations	<u>(29,775)</u>	<u>-</u>	<u>(29,775)</u>
Balance at June 30, 2016	<u>\$ 247,388</u>	<u>\$ 1,130,629</u>	<u>\$ 1,378,017</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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2016

Note 11. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets were held for the following purposes at June 30, 2016:

	June 30, 2015	Additions	Released from Restrictions	June 30, 2016
Aging services	\$ 180,296	\$ 194,412	\$ (161,565)	\$ 213,143
Behavioral health services	177,551	310	(120,785)	57,076
Children and youth	658,711	1,173,320	(946,999)	885,032
Homelessness and housing services	1,666,370	160,269	(1,002,497)	824,142
Refugee and immigrant services	211,971	40,997	(138,757)	114,211
Auxiliary services	117,482	-	(60,971)	56,511
Administrative	196,782	34	-	196,816
Advancement	1,515,714	375,692	(138,104)	1,753,302
Total temporarily restricted net assets	\$ 4,724,877	\$ 1,945,034	\$ (2,569,678)	\$ 4,100,233

Note 12. EMPLOYEE BENEFIT PLANS:

Catholic Charities CYO maintains deferred compensation plans, under Internal Revenue Code 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 \$428,405 for the year ended June 30, 2016.

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, 2016.

Program Name	Contract Number	Exhibit Number	Contract Period	Contract Amount
Catholic Charities CYO dba St. Vincent's School for Boys	Procurement Contract #11520	N/A	7/1/15 - 6/30/16	\$ 316,137

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, 2016 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>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2016

Note 14. COMMITMENTS AND CONTINGENCIES (Continued):

Commitments (continued):

Rental expense, on a straight line basis, amounted to \$877,173 for the year ended June 30, 2016.

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.