



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

CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2014



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

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JUNE 30, 2014**

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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, 2014, 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, 2014, 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 2013 financial statements, and our report dated December 13, 2013, 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, 2013, 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 17, 2014

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

<u>ASSETS</u>	<u>June 30, 2014</u>	<u>June 30, 2013</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 10,154,528	\$ 10,063,953
Investments	821,085	716,300
Program receivables	5,171,529	4,896,234
Contributions receivable	870,509	698,258
Prepaid expenses and other assets	137,735	257,791
	<hr/>	<hr/>
TOTAL CURRENT ASSETS	17,155,386	16,632,536
Contractually restricted cash	2,114,447	2,180,867
Assets of pooled income fund	797,679	774,160
Interest in charitable trusts and annuities	18,931	19,145
Contributions receivable	242,530	325,807
Property and equipment, net	10,425,262	9,827,541
Other long-term assets	102,536	95,233
	<hr/>	<hr/>
TOTAL ASSETS	<u>\$ 30,856,771</u>	<u>\$ 29,855,289</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
CURRENT LIABILITIES:		
Accounts payable	\$ 843,374	\$ 680,156
Accrued expenses	2,484,100	2,171,880
Current portion of notes payable	28,083	40,230
Deferred revenue	444,160	412,191
	<hr/>	<hr/>
TOTAL CURRENT LIABILITIES	3,799,717	3,304,457
Notes payable	6,632,245	6,661,294
Contractual reserves	2,979,650	3,014,421
Conditional asset retirement obligations	803,020	1,066,857
Long-term deferred revenue and deferred compensation	145,227	143,262
	<hr/>	<hr/>
TOTAL LIABILITIES	14,359,859	14,190,291
 NET ASSETS:		
Unrestricted	11,844,291	11,004,120
Temporarily restricted	4,088,397	4,096,854
Permanently restricted	564,224	564,024
	<hr/>	<hr/>
TOTAL NET ASSETS	16,496,912	15,664,998
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TOTAL LIABILITIES AND NET ASSETS	<u>\$ 30,856,771</u>	<u>\$ 29,855,289</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, 2013)

	Year Ended June 30, 2014			Year Ended June 30, 2013	
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Comparative Totals
SUPPORT AND REVENUE FROM OPERATIONS:					
Public support:					
Government service contracts	\$ 24,435,069	\$ 74,415	\$ -	\$ 24,509,484	\$ 24,523,510
Contributions and foundation grants	1,532,496	1,908,363	200	3,441,059	2,466,251
Bequests	555,447	252,264	-	807,711	2,939,856
Capital/Special Projects	-	382,355	-	382,355	307,374
Special events	-	265,958	-	265,958	360,528
Other revenue:					
Program service fees	8,354,809	-	-	8,354,809	7,569,270
Rental income	1,824,754	-	-	1,824,754	1,723,728
Investment return	13,592	128,695	-	142,287	65,244
Other income	255,194	-	-	255,194	225,846
Net assets released from restrictions	3,020,507	(3,020,507)	-	-	-
TOTAL SUPPORT AND REVENUE FROM OPERATIONS	39,991,868	(8,457)	200	39,983,611	40,181,607
OPERATING EXPENSES:					
Program services:					
Youth residential services	10,995,095	-	-	10,995,095	10,865,078
Children and family services	7,321,925	-	-	7,321,925	7,259,447
Housing and health stabilization services	6,781,924	-	-	6,781,924	6,886,767
Transportation and outdoor programs	6,730,386	-	-	6,730,386	6,550,474
Aging services	1,401,134	-	-	1,401,134	1,310,725
Counseling services	437,120	-	-	437,120	440,934
Total program services	33,667,584	-	-	33,667,584	33,313,425
Supporting services:					
Administration	3,967,442	-	-	3,967,442	3,588,240
Development	1,516,671	-	-	1,516,671	1,323,298
TOTAL OPERATING EXPENSES	39,151,697	-	-	39,151,697	38,224,963
CHANGE IN NET ASSETS FROM OPERATIONS	840,171	(8,457)	200	831,914	1,956,644
NET ASSETS, beginning of year	11,004,120	4,096,854	564,024	15,664,998	13,708,354
NET ASSETS, end of year	\$ 11,844,291	\$ 4,088,397	\$ 564,224	\$ 16,496,912	\$ 15,664,998

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, 2013)

	Year Ended June 30, 2014					Year Ended June 30, 2013 Comparative Totals
	Supporting Services			Total Administration and Development	Total Program and Support Services	
	Program Services	Administration	Development			
Salaries and wages	\$ 16,163,634	\$ 2,155,929	\$ 635,700	\$ 2,791,629	\$ 18,955,263	\$ 18,270,288
Employee benefits and payroll taxes	5,551,307	524,671	163,361	688,032	6,239,339	6,098,656
Total salaries and related expenses	21,714,941	2,680,600	799,061	3,479,661	25,194,602	24,368,944
Occupancy costs	2,691,950	213,257	66,264	279,521	2,971,471	2,749,521
Financial assistance	2,581,516	-	-	-	2,581,516	2,582,246
Professional fees	1,453,751	702,073	406,275	1,108,348	2,562,099	2,146,601
Transportation costs and travel	1,488,497	29,623	15,804	45,427	1,533,924	1,473,890
Program food	951,257	451	89	540	951,797	899,832
Depreciation	712,981	9,067	-	9,067	722,048	736,090
Supplies	607,246	23,584	34,671	58,255	665,501	587,281
Insurance	532,550	14,860	4,252	19,112	551,662	680,202
Telephone and postage	310,435	103,152	26,342	129,494	439,929	456,753
Miscellaneous	332,375	48,295	23,623	71,918	404,293	419,373
Child related	252,195	-	-	-	252,195	279,711
Printing and publication	42,790	91,727	72,598	164,325	207,115	193,652
Conferences and meetings	83,616	50,753	67,692	118,445	202,061	369,213
Contractually required reserves	167,537	-	-	-	167,537	272,492
Interest	7,784	-	-	-	7,784	9,162
Asset remediation expense reduction	(263,837)	-	-	-	(263,837)	-
Total direct expenses	33,667,584	3,967,442	1,516,671	5,484,113	39,151,697	38,224,963
Indirect allocation	5,345,568	(3,967,442)	(1,378,126)	(5,345,568)	-	-
Total expenses	<u>\$ 39,013,152</u>	<u>\$ -</u>	<u>\$ 138,545</u>	<u>\$ 138,545</u>	<u>\$ 39,151,697</u>	<u>\$ 38,224,963</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, 2014

	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	\$ 6,014,445	\$ 3,069,733	\$ 3,106,257	\$ 2,932,307	\$ 750,256	\$ 290,636	\$ 16,163,634
Employee benefits and payroll taxes	2,004,678	1,064,258	1,149,252	1,021,251	230,511	81,357	5,551,307
Total salaries and related expenses	8,019,123	4,133,991	4,255,509	3,953,558	980,767	371,993	21,714,941
Occupancy costs	494,593	933,598	428,852	657,406	156,533	20,968	2,691,950
Financial assistance	675,731	798,634	1,103,751	-	3,400	-	2,581,516
Professional fees	309,202	477,290	290,496	309,264	59,940	7,559	1,453,751
Transportation costs and travel	302,523	69,981	45,688	1,009,078	56,694	4,533	1,488,497
Program food	221,827	139,728	267,154	255,854	66,694	-	951,257
Depreciation	214,469	51,912	74,165	356,544	8,069	7,822	712,981
Supplies	219,961	231,250	55,767	70,691	27,497	2,080	607,246
Insurance	161,510	175,047	89,405	83,167	13,957	9,464	532,550
Telephone and postage	106,246	46,268	78,361	60,253	10,483	8,824	310,435
Miscellaneous	149,843	92,848	49,972	29,759	8,001	1,952	332,375
Child related	252,195	-	-	-	-	-	252,195
Printing and publication	2,198	15,809	1,936	17,031	5,571	245	42,790
Conferences and meetings	48,414	13,615	11,486	4,893	3,528	1,680	83,616
Contractually required reserves	-	144,370	23,167	-	-	-	167,537
Interest	-	-	6,215	1,569	-	-	7,784
Asset remediation expense reduction	(182,740)	(2,416)	-	(78,681)	-	-	(263,837)
Total direct expenses	10,995,095	7,321,925	6,781,924	6,730,386	1,401,134	437,120	33,667,584
Indirect allocation	1,785,495	1,128,484	1,022,667	1,110,583	228,016	70,323	5,345,568
Totals	\$ 12,780,590	\$ 8,450,409	\$ 7,804,591	\$ 7,840,969	\$ 1,629,150	\$ 507,443	\$ 39,013,152

See notes to consolidated financial statements.

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

CONSOLIDATED STATEMENT OF CASH FLOWS

	Year Ended June 30, 2014	Year Ended June 30, 2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 831,914	\$ 1,956,644
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	722,048	736,089
Net realized and unrealized gain on investments	(141,393)	(30,030)
Contribution of investments	(80,270)	(47,664)
Change in asset retirement obligation	(263,837)	-
Change in operating assets and liabilities:		
Change in contractually restricted cash	66,420	(510,877)
Receivables	(364,269)	1,818,167
Prepaid expenses and other assets	112,967	(19,746)
Accounts payable	163,218	29,958
Accrued expenses	312,220	240,936
Deferred revenue and deferred compensation	33,934	(16,093)
	1,392,952	4,157,384
NET CASH PROVIDED BY OPERATING ACTIVITIES		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Contractually required reserves	\$ (34,771)	\$ 34,382
Proceeds from sales and maturities of investments	93,359	76,637
Proceeds from sales of fixed assets	-	-
Purchases of investments	-	(47,947)
Purchases of property and equipment	(1,319,769)	(968,634)
	(1,261,181)	(905,562)
NET CASH USED BY INVESTING ACTIVITIES		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Contractual reserves	-	1,145
Payments on notes payable	(41,196)	(109,941)
	(41,196)	(108,796)
NET CASH USED BY FINANCING ACTIVITIES		
NET INCREASE IN CASH AND CASH EQUIVALENTS	90,575	3,143,026
CASH AND CASH EQUIVALENTS, beginning of year	10,063,953	6,920,927
CASH AND CASH EQUIVALENTS, end of year	\$ 10,154,528	\$ 10,063,953
SUPPLEMENTAL INFORMATION:		
Cash paid for interest	\$ 7,784	\$ 9,162

See notes to consolidated financial statements.

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2014

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, 2014 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, 2014

**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, 2014 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 \$4,417,568 for the year ending June 30, 2014.

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, 2014. 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, 2014

**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 3.08%. 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, 2014

**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 2% to 3%. 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 3.08%.

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
OF THE ARCHDIOCESE OF SAN FRANCISCO**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2014

**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, 2014, 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. 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 17, 2014, 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.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2014

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. 53% of contributions receivable were due from two donors at June 30, 2014.

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. The balance is adjusted annually and was \$1,066,857 at June 30, 2013.

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 is \$803,020 at June 30, 2014, using revised estimated cash flows. The asset remediation reduction reduced the obligation expense by \$263,837 as reflected in the Statement of Functional Expenses.

Note 5. INVESTMENTS AND SPLIT-INTEREST AGREEMENTS:

Investments in marketable securities, at fair value, and the value of split-interest agreements at June 30, 2014 are as follows:

Investments - equity funds	\$ 821,085
Pooled income fund - mutual funds	797,679
Interest in charitable gift annuities	-
Interest in charitable remainder trust	<u>18,931</u>
Total	<u>\$ 1,637,695</u>

Investment return consists of the following at June 30, 2014:

Interest and dividend income	\$ 894
Net realized and unrealized gains on investments	143,081
Change in market value of charitable gift annuities and charitable lead trust pooled income fund	<u>(1,688)</u>
Total	<u>\$ 142,287</u>

**CATHOLIC CHARITIES CYO
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2014

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

Investments totaling \$700,269 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, 2014:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments - equity funds	\$ 120,816	\$ 700,269	\$ -	\$ 821,085
Pooled income fund - mutual	797,679	-	-	797,679
Interest in charitable gift annuities	-	-	-	-
Interest in charitable remainder trust	-	-	18,931	18,931
Total assets at fair value	<u>\$ 918,495</u>	<u>\$ 700,269</u>	<u>\$ 18,931</u>	<u>\$ 1,637,695</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, 2014:

	<u>Charitable Remainder Trust</u>
Balance, beginning of year	\$ 17,579
Unrealized gains/losses relating to instruments still held at the reporting date	<u>1,352</u>
Balance, end of year	<u>\$ 18,931</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, 2014 as follows:

Contributions and bequests receivable:		
Current		\$ 870,509
Due between one and five years	\$ 250,000	
Due in more than five years	<u>-</u>	
	250,000	
Less: unamortized discount	<u>(7,470)</u>	
Total non-current		<u>242,530</u>
Total contributions and bequests receivable		<u>\$ 1,113,039</u>

**CATHOLIC CHARITIES CYO
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2014

Note 7. PROPERTY AND EQUIPMENT:

Property and equipment consists of the following at June 30, 2014:

Land	\$ 1,054,741
Land Improvement	1,533,519
Buildings	11,495,898
Building improvements	2,595,676
Equipment and furniture	746,302
Software and website	64,893
Transportation equipment	4,372,662
Construction in process	267,258
Intangible	<u>7,841</u>
	22,138,790
Less: accumulated depreciation	<u>(11,713,528)</u>
Total property and equipment, net	<u>\$ 10,425,262</u>

Note 8. ACCRUED EXPENSES:

Accrued expenses consist of the following at June 30, 2014:

Accrued salaries and wages	\$ 894,905
Accrued vacation	839,965
Accrued general accounts payable	502,218
Accrued 401(k) costs	50,135
All other accrued employee withholdings	29,676
Accrued unemployment insurance	105,366
Other	<u>61,835</u>
Total	<u>\$ 2,484,100</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2014

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

Long-term debt consists of the following at June 30, 2014:

	<u>June 30, 2014</u>
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 \$479,922.	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 \$644,583.	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 \$644,583.	<u>1,192,985</u>
Total loans with the City and County of San Francisco	<u>3,724,333</u>
Loans with the Archdiocese of San Francisco:	
Bus loan payable in monthly installments of \$1,882, bearing interest 5.5%, due October 1, 2014.	7,444
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>2,840,684</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2014

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 \$644,583.	June 30, 2014 <hr/> \$ 95,310
Total loans	6,660,327
Less: current portion	<u>(28,082)</u>
Total loans less current portion	<u>\$ 6,632,245</u>

Certain loans payable, to the City and County of San Francisco, totaling \$2,022,134 as of June 30, 2014 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 \$2,114,447 and reserve balances of \$2,979,650 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 \$2,840,231 at June 30, 2014.

Future maturities of long-term debt outstanding at June 30, 2014 are as follows:

Years Ending <u>June 30,</u>	
2015	\$ 28,083
2016	22,726
2017	23,633
2018	24,577
2019	112,950
Thereafter	<u>6,448,358</u>
	<u>\$ 6,660,327</u>

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS - JUNE 30, 2014

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, 2013	\$ 225,549	\$ 564,024	\$ 789,573
Net investment return	104,699	-	104,699
Contributions	-	200	200
Appropriations	<u>(32,300)</u>	<u>-</u>	<u>(32,300)</u>
Balance at June 30, 2014	<u>\$ 297,948</u>	<u>\$ 564,224</u>	<u>\$ 862,172</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, 2014:

	<u>June 30, 2013</u>	<u>Contributions</u>	<u>Released from Restrictions</u>	<u>June 30, 2014</u>
Aging services	\$ 436,110	\$ 291,840	\$ 489,215	\$ 238,735
Housing and health stabilization services	637,290	50,929	134,037	554,182
Children and family	1,880,659	1,455,018	1,088,548	2,247,129
Outdoor programs	441,274	148,038	170,213	419,099
Youth, residential services	527,658	680,311	763,739	444,230
General program support	<u>173,863</u>	<u>385,914</u>	<u>374,755</u>	<u>185,022</u>
Total temporarily restricted net assets	<u>\$ 4,096,854</u>	<u>\$ 3,012,050</u>	<u>\$ 3,020,507</u>	<u>\$ 4,088,397</u>

**CATHOLIC CHARITIES CYO
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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 \$467,761 for the year ended June 30, 2014.

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, 2014.

<u>Program Name</u>	<u>Contract Number</u>	<u>Exhibit Number</u>	<u>Contract Period</u>	<u>Contract Amount</u>
Catholic Charities CYO dba St. Vincent's School for Boys	Procurement Contract #9291	N/A	7/1/13 - 6/30/14	\$ 292,403

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, 2014 are as follows:

<u>Years Ending June 30,</u>	
2015	\$ 512,217
2016	631,165
2017	601,224
2018	613,309
2019	617,960
Thereafter	<u>2,869,289</u>
	<u>\$ 5,845,164</u>

Rental expense, on a straight line basis, amounted to \$1,072,154 for the year ended June 30, 2014.

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.