



Certified Public Accountants
and Financial Advisors

**CATHOLIC CHARITIES CYO OF THE
ARCHDIOCESE OF SAN FRANCISCO**
Consolidated Financial Statements
June 30, 2019

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Catholic Charities CYO of the Archdiocese of San Francisco and its affiliates (collectively the "Organization"), which comprise the consolidated statement of financial position as of June 30, 2019, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements (collectively, 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.

Auditor's 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 and its affiliates as of June 30, 2019, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 12 to the financial statements, beginning net assets have been restated as of July 1, 2018 to correct a misstatement. Our opinion is not modified with respect to this matter.

SQUAR MILNER LLP

San Francisco, California
December 30, 2019

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO
CONSOLIDATED STATEMENT OF FINANCIAL POSITION
June 30, 2019

ASSETS

Cash and cash equivalents	\$ 1,337,573
Investments	11,214,930
Receivables	
Program receivables, net	5,547,470
Contributions receivable	481,485
Prepaid expenses	409,558
Contractually restricted cash	5,928,118
Property and equipment, net	15,088,695
Other assets	224,139
	<hr/>
Total assets	<u>\$ 40,231,968</u>

LIABILITIES AND NET ASSETS

Liabilities

Accounts payable	\$ 1,000,759
Accrued expenses	3,426,400
Deferred revenue and deferred compensation	668,422
Loans payable	7,686,220
Contractual reserves	5,618,655
Conditional asset retirement obligations	808,746
	<hr/>
Total liabilities	<u>19,209,202</u>

Net Assets

Without donor restrictions	
Undesignated	4,443,363
Board designated	1,240,281
Investment in property and equipment, net	10,418,392
	<hr/>
	16,102,036
With donor restrictions	4,920,730
	<hr/>
Total net assets	<u>21,022,766</u>
	<hr/>
Total liabilities and net assets	<u>\$ 40,231,968</u>

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO
CONSOLIDATED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUE			
Government contracts	\$ 29,340,347	\$ -	\$ 29,340,347
Program service fees	9,137,218	-	9,137,218
Contributions and foundation grants	869,829	2,820,215	3,690,044
Rental income	1,787,902	-	1,787,902
Special events	802,038	203,088	1,005,126
Bequests	755,753	222,454	978,207
Investment return, net	439,561	152,085	591,646
Other income	278,972	-	278,972
	<u>43,411,620</u>	<u>3,397,842</u>	<u>46,809,462</u>
Total support and revenue			
Net assets released from restrictions	<u>2,894,499</u>	<u>(2,894,499)</u>	<u>-</u>
Total support and revenue	<u>46,306,119</u>	<u>503,343</u>	<u>46,809,462</u>
OPERATING EXPENSES			
Program services:			
Aging support services	1,982,167	-	1,982,167
Children and youth services	16,317,602	-	16,317,602
Homelessness and housing services	15,324,866	-	15,324,866
Refugees and immigrants services	1,420,108	-	1,420,108
CYO Transportation and facility rentals	4,348,634	-	4,348,634
	<u>39,393,377</u>	<u>-</u>	<u>39,393,377</u>
Total program services			
Support services:			
Administration	6,939,853	-	6,939,853
Development	1,853,853	-	1,853,853
	<u>8,793,706</u>	<u>-</u>	<u>8,793,706</u>
Total support services			
Total expenses	<u>48,187,083</u>	<u>-</u>	<u>48,187,083</u>
CHANGE IN NET ASSETS	(1,880,964)	503,343	(1,377,621)
NET ASSETS - beginning of year, as restated (Note 12)	<u>17,983,000</u>	<u>4,417,387</u>	<u>22,400,387</u>
NET ASSETS - end of year	<u>\$ 16,102,036</u>	<u>\$ 4,920,730</u>	<u>\$ 21,022,766</u>

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2019

	Program Services					Support Services				Total
	Aging Support Services	Children and Youth Services	Homelessness and Housing Services	Refugees and Immigrants Services	CYO		Administration	Development	Total Support Services	
					Transportation and Facility Rentals	Total Program Services				
Salaries and related expenses:										
Salaries and wages	\$ 1,110,031	\$ 8,758,177	\$ 5,689,458	\$ 880,037	\$ 1,801,625	\$ 18,239,328	\$ 3,342,883	\$ 944,526	\$ 4,287,409	\$ 22,526,737
Employee benefits and payroll taxes	372,492	2,733,557	1,973,031	254,504	655,648	5,989,232	846,844	212,531	1,059,375	7,048,607
Total salaries and related expenses	1,482,523	11,491,734	7,662,489	1,134,541	2,457,273	24,228,560	4,189,727	1,157,057	5,346,784	29,575,344
Occupancy costs	193,579	1,169,946	1,722,287	94,784	300,298	3,480,894	162,076	76,497	238,573	3,719,467
Professional fees and outside contractors	23,640	604,217	641,505	28,765	141,071	1,439,198	1,885,379	363,124	2,248,503	3,687,701
Financial assistance	-	64,606	2,124,322	67,645	-	2,256,573	-	-	-	2,256,573
Transportation costs and travel	125,072	617,165	83,781	4,002	896,206	1,726,226	26,167	10,626	36,793	1,763,019
Contractually required reserves	-	-	1,340,222	-	-	1,340,222	-	-	-	1,340,222
Depreciation	8,299	560,098	285,260	5,213	287,250	1,146,120	93,682	-	93,682	1,239,802
Program food	47,870	571,655	378,913	-	-	998,438	3,315	-	3,315	1,001,753
Miscellaneous	6,853	229,145	181,880	10,456	164,360	592,694	257,344	92,037	349,381	942,075
Insurance	18,543	310,568	314,211	24,545	45,844	713,711	33,590	3,237	36,827	750,538
Telephone and postage	25,730	176,295	176,892	22,711	42,723	444,351	125,913	16,296	142,209	586,560
Supplies	42,686	276,116	191,739	12,791	2,640	525,972	19,525	21,078	40,603	566,575
Conferences and meetings	6,314	63,023	30,188	12,179	6,190	117,894	82,837	54,607	137,444	255,338
Child related	-	172,622	-	-	-	172,622	-	-	-	172,622
Printing and publication	1,058	9,116	6,745	2,476	4,779	24,174	60,298	59,294	119,592	143,766
Interest	-	1,296	184,432	-	-	185,728	-	-	-	185,728
Total expenses	\$ 1,982,167	\$ 16,317,602	\$ 15,324,866	\$ 1,420,108	\$ 4,348,634	\$ 39,393,377	\$ 6,939,853	\$ 1,853,853	\$ 8,793,706	\$ 48,187,083

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO
CONSOLIDATED STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2019

CASH FLOWS FROM OPERATING ACTIVITIES	
Change in net assets	\$ (1,377,621)
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	1,239,802
Contributions restricted in perpetuity	(58,790)
Net unrealized gain on investments	(462,430)
Change in asset retirement obligation	1,260
Changes in operating assets and liabilities:	
Receivables	1,233,242
Prepaid expenses and other assets	(220,159)
Contractually restricted cash	(1,314,537)
Accounts payable	425,031
Accrued expenses	317,311
Contractual reserves	1,005,074
Deferred revenue	99,804
	<u>887,987</u>
Net cash provided by operating activities	<u>887,987</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sales and maturities of investments	5,242,956
Purchases of investments	(3,962,700)
Purchases of property and equipment	(3,266,440)
	<u>(1,986,184)</u>
Net cash used in investing activities	<u>(1,986,184)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Contributions restricted in perpetuity	58,790
	<u>58,790</u>
Net cash provided by financing activities	<u>58,790</u>
Net decrease in cash and cash equivalents	(1,039,407)
CASH AND CASH EQUIVALENTS - beginning of year	<u>2,376,980</u>
CASH AND CASH EQUIVALENTS - end of year	<u>\$ 1,337,573</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION	
Cash paid for interest	<u>\$ 21,144</u>

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019

1. ORGANIZATION

Catholic Charities CYO of the Archdiocese of San Francisco (“Catholic Charities CYO”) is a non-profit human services and community development organization. Catholic Charities CYO 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, Catholic Charities CYO 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. Catholic Charities CYO views their employees and those they serve as strategic partners in these efforts.

The consolidated financial statements include the accounts of Catholic Charities CYO, 899 Guerrero Street Inc., and 1340 Golden Gate Associates, L.P. (collectively, the “Organization”). Catholic Charities CYO has a controlling interest and economic interest in 899 Guerrero Street, Inc. 1340 Golden Gate Associates, L.P. is owned by Catholic Charities CYO as a limited partner holding 99.0% interest and 899 Guerrero Street, Inc. as a general partner holding 1.0% interest.

The Organization currently has five categories of programs:

Aging support services – these programs help seniors maintain their independence and dignity while making valuable connections through companionship and friendship. The programs promote economical, comprehensive, alternative solutions to residential facilities or in-home care while providing respite to caregivers.

Children and youth services – these programs provide the opportunity for children to learn, play and grow in healthy, safe environments to better prepare them for their future. From early childhood development care and after-school programs to organized athletics and summer camps, youth of all ages are encouraged to thrive. Residential-based services also help children and youth heal and grow into healthy adults.

Homelessness and housing services – these programs provide residential care facilities, distribution of housing subsidies and wrap-around case management to vulnerable people and provide them with freedom to focus on restoring stability and hope in other areas of their lives.

Centers for Immigration Legal Support Services – these programs assist clients in achieving legal status and economic self-sufficiency, as well as becoming fully active participants in the social and civic life of our communities.

CYO Transportation and Facility Rentals – CYO transportation provides school bus services to a variety schools and youth-serving organizations. Facility rentals includes the rental of a portion of our facilities to other not-for-profit organizations.

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A summary of significant accounting policies is as follows:

Basis of Presentation

The accompanying consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), and include the accounts of the Organization which have been consolidated pursuant to the provisions of Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic 810, Consolidation ("ASC 810"). All intercompany transactions have been eliminated upon consolidation.

Net Assets

The net assets of the Organization are reported in groups as follows:

Without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations. The Organization has created a board designated fund, the Legacy Circle Fund, to govern the use of bequests received without donor restrictions. Investment in property and equipment is net of related debt obligations.

With Donor Restrictions

Those net assets that are subject to donor-imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when specified conditions are met.

Cash and Cash Equivalents

Cash and cash equivalents include all highly liquid instruments with original maturities of three months or less.

Contractually Restricted Cash

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

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Receivables

Program receivables represent amounts billed and accrued but not yet collected for services. The Organization provides an allowance for doubtful accounts based on management's evaluation of the current aging of the accounts. Based on these factors, there is a provision for doubtful accounts of \$130,000 as of June 30, 2019. It is the Organization's policy to charge off uncollectible accounts receivable when management determines the receivable will not be collected.

Contributions receivable represent the balance of pledges and commitments from donors that have not yet been received.

Revenue Recognition

Government contracts

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

Program service fees

Program service fees are recognized as revenue without donor restrictions when earned. All program service fees are defined as program income per the Organization's guidelines.

Contributions and Grants

Unconditional promises to give are recorded as revenue at their fair value when the promise is made. Contributions and grants are recorded as support with or without donor restrictions based on whether they include donor stipulations that limit the use of the contributions and grants. When a donor restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

Rental income

The Organization has entered into several operating lease agreements with lessees, which contain provisions for future rent increases. Rental income is recognized over the lease term using the straight-line method.

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 deferred revenue, as are estimated liabilities under pooled income funds.

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments

Investments are stated at fair value based on quoted market prices. Gains and losses that result from market fluctuations are recognized in the period in which such fluctuation occurs in the consolidated statement of activities.

The Organization 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.

Fair Value Measurements

The Organization considers the use of market-based information over entity specific information in valuing its assets and liabilities valued at fair value, using a three-level hierarchy for fair value measurements, based on the nature of inputs used in the valuation of an asset or liability as of the measurement date.

The three-level hierarchy for fair value measurements is defined as follows:

- *Level 1*: Quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.
- *Level 2*: Observable inputs, other than quoted prices included within Level 1, for the asset or liability, either directly or indirectly through corroboration with observable market data (market-corroborated inputs).
- *Level 3*: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Property and Equipment

Land, buildings and equipment with an original purchase price in excess of \$5,000 are carried at cost. Depreciation is provided on the straight line method over the estimated useful lives of the assets, which range from 3 to 27.5 years. Maintenance, repairs and renewals which neither materially add to the value of the property nor appreciably prolong its life are charged to expense as incurred. Leasehold improvements are amortized over the shorter of the useful life of the improvements or the life of the lease.

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Split-Interest Agreements

The Organization has entered into a variety of split-interest charitable agreements as follows:

Pooled Income Fund

The Organization'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 2.31% or 2.41%. Upon the donor's death, the value of the assigned units reverts to the Organization for its unrestricted use.

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%. The Organization 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.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and California Revenue and Taxation Code Section 23701d. Accordingly, no provision for income taxes has been made in the accompanying financial statements.

Each year, management considers whether any material tax position the Organization has taken is more likely than not to be sustained upon examination by the applicable tax authority. Management believes that any positions the Organization has taken are supported by substantial authority and, hence, do not need to be measured or disclosed in these financial statements.

Use of Estimates

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

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Expense Allocation

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Expenses are allocated to program and supporting services based on the purpose of each expenditure and services provided for each program. Accordingly, certain costs have been allocated to program and supporting services based on employee time estimates, square footage, or other appropriate usage factors.

Concentrations of Credit Risk

Financial instruments which are potentially subject to credit risk consist principally of cash, and cash equivalents, investments, receivables and assets of the pooled income fund. Cash and cash equivalents are 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.

Program receivables consist primarily of amounts due from a limited number of federal, state and county agencies. The Organization historically had minimal collection issues related to such receivables. Contributions receivable are due from several estates, foundations and individuals. 40% of contributions receivable were due from three donors at June 30, 2019.

New Accounting Pronouncements

On August 18, 2016, FASB issued Accounting Standards Update (ASU) 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements of Not-for-Profit Entities. The Organization has adjusted the presentation of its financial statements accordingly. The new standards change the following aspects of the Organization's financial statements:

1. The unrestricted net asset class has been renamed net assets without donor restrictions. The temporarily and permanently restricted net asset class has been renamed net assets with donor restrictions.
2. The financial statements include a new disclosure about liquidity and availability of resources (refer to Note 11).

The FASB issued ASU 2014-09, Revenue from Contracts with Customers which supersedes existing revenue recognition guidance under current GAAP. This standard is a comprehensive new revenue recognition model that requires an entity to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. In doing so, among other things, entities will generally need to use more judgment and make more estimates than under the current guidance. The standard permits the use of either the retrospective or cumulative effect transition method. The new standard will be effective for the Organization for the year ending June 30, 2020.

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

New Accounting Pronouncements (continued)

The FASB also issued ASU No. 2018-08, *Not-for-Profit Entities* (Topic 958), clarifying the scope and the accounting guidance for contributions received and contributions made including the criteria for evaluating whether contributions are conditional or unconditional. The new standard will be effective for the Organization for the year ending June 30, 2020.

The FASB also issued ASU No. 2016-02, *Leases* (Topic 842) ("ASU 2016-02") for lease accounting to increase transparency and comparability among companies by requiring the recognition of lease assets and lease liabilities by lessees. ASU 2016-02 is not expected to fundamentally change the accounting of leases for lessors. The new standard will be effective for the Organization for the year ending June 30, 2022, and early adoption is permitted.

Subsequent Events

Management has evaluated events and transactions for potential recognition or disclosure through December 30, 2019, which represents the date the consolidated financial statements were available to be issued.

3. INVESTMENTS AND SPLIT-INTEREST AGREEMENTS/ FAIR VALUE MEASUREMENTS

Investments in marketable securities, at fair value, and the value of split-interest agreements at June 30, 2019 are as follows:

Investments	\$ 6,295,346
Investment pool - Archdiocese of San Francisco	<u>4,328,288</u>
Subtotal	10,623,634
Pooled income fund - mutual funds	<u>591,296</u>
Total	<u><u>\$ 11,214,930</u></u>

Investment return consists of the following at June 30, 2019:

Interest and dividend income	\$ 129,216
Unrealized gains on investments	<u>462,430</u>
Total	<u><u>\$ 591,646</u></u>

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

3. INVESTMENTS AND SPLIT-INTEREST AGREEMENTS/ FAIR VALUE MEASUREMENTS (continued)

Investments totaling \$4,328,288 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 the Organization's assets at fair value as of June 30, 2019:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
U.S. Treasuries	\$ -	\$ 6,064,735	\$ -	\$ 6,064,735
Domestic common stock	230,611	-	-	230,611
Total assets in fair value heirarchy	<u>\$ -</u>	<u>\$ 6,064,735</u>	<u>\$ -</u>	<u>6,295,346</u>
Investments held at net asset value ⁽¹⁾				
Pooled income fund				591,296
Investment pool - Archdiocese of San Francisco				<u>4,328,288</u>
				<u>4,919,584</u>
 Total investments at fair value				 <u>\$ 11,214,930</u>

⁽¹⁾ Investments are measured at fair value using the net asset value per share (or its equivalent), and, therefore, have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the amounts presented in the statement of financial position.

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2019:

Land	\$ 1,077,736
Land improvements	1,743,321
Buildings	14,291,537
Building improvements	4,116,379
Equipment and furniture	280,171
Software and website	1,282,952
Transportation equipment	5,858,987
Intangibles	<u>7,841</u>
	28,658,924
Less: Accumulated depreciation and amortization	<u>(16,734,469)</u>
	11,924,455
Construction in progress	<u>3,164,240</u>
Total property and equipment - net	<u>\$ 15,088,695</u>

Depreciation and amortization expense for the year ended June 30, 2019 was \$1,239,802.

At June 30, 2019 the Organization has commitments totaling \$588,560 for the completion of various capital improvement projects within the next fiscal year.

The Organization's asset retirement obligations relate to eventual costs of asbestos and lead paint remediation for some of its buildings. The Organization initially recorded asset retirement obligations of \$1,093,259. The balance is adjusted annually and was \$808,746 at June 30, 2019.

Net assets without donor restrictions in property and equipment net of related debt and other obligations totals \$10,418,392 as of June 30, 2019.

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

5. LOANS PAYABLE

Loans payable consists of the following at June 30, 2019:

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 \$560,784. At June 30, 2019, no interest was accrued on this loan. 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 \$249,115. This loan is expected to be recognized as revenue upon finalization of debt cancellation. 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. Secured by real property with a book value of \$256,252. At June 30, 2019, accrued interest payable on the loan was \$1,870,696. 2,321,632

Total loans with the City and County of San Francisco 4,852,980

Loans with the Archdiocese of San Francisco

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

Total loans payable \$ 7,686,220

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

5. LOANS PAYABLE (continued)

Certain loans payable to the City and County of San Francisco, totaling \$2,022,134 as of June 30, 2019 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 \$5,928,118 and reserve balances of \$5,618,655 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.

The Organization has loans payable to the Archdiocese of San Francisco, a related party, which amounted to \$2,833,240 at June 30, 2019.

Future maturities of long-term debt outstanding at June 30, 2019 are as follows:

<u>Year Ending June 30,</u>	
2020	\$ 109,214
2021	2,833,240
2022	-
2023	-
2024	-
Thereafter	<u>4,743,766</u>
	<u>\$ 7,686,220</u>

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

6. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions as of June 30, 2019 were restricted for the following purpose:

Subject to purpose restrictions:	
Aging support services	\$ 171,500
Children and youth	1,513,780
Homelessness and housing services	134,797
Refugees and immigrants services	225,999
Events or time restricted gifts	1,160,570
	<u>3,206,646</u>
Donor-restricted endowments:	
Unappropriated endowment earnings	399,417
Amounts to be maintained in perpetuity	1,314,667
	<u>1,714,084</u>
Total net assets with donor restrictions	<u>\$ 4,920,730</u>

For the year ended June 30, 2019, net assets with donor restrictions were released from donor restrictions by incurring expenses satisfying the purpose specified by donors as follows:

Aging support services	\$ 293,092
Children and youth	1,518,464
Homelessness and housing services	154,799
Refugees and immigrants services	151,607
Events or time restricted gifts	776,537
	<u>\$ 2,894,499</u>

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

June 30, 2019

7. ENDOWMENT FUNDS

The Organization's endowment consists of several different individual funds established for a variety of purposes. All investment income earned on the donor restricted endowment funds are treated as income with donor restrictions until appropriated by the Organization.

The State of California enacted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") effective January 1, 2009, the provisions of which apply to endowment funds existing on or established after that date. Net asset classifications of donor-restricted endowment funds subject to an enacted version of UPMIFA have been accounted for appropriately in these financial statements. Additional disclosures about the Organization's endowment funds subject to UPMIFA have been included for the year ended June 30, 2019.

Interpretation of Relevant Law

The Organization's Board has interpreted UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Organization classifies as net assets with donor restrictions (1) the original value of gifts donated to the donor-restricted endowment, (2) the original value of subsequent gifts donated to the donor-restricted endowment, and (3) additions to the donor-restricted endowment in accordance with donor directions. The remaining portion of the donor-restricted endowment is classified as net assets with donor restrictions until those amounts are appropriated for expenditure by the Organization in a manner consistent with the standard of prudence prescribed by UPMIFA.

Spending Policy

In accordance with UPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the endowment funds;
- (2) The purposes of the endowment funds;
- (3) General economic conditions;
- (4) The possible effect of inflation and deflation;
- (5) The expected total return from income and the appreciation of investments;
- (6) Other resources of the Organization; and
- (7) The investment policies of the Organization.

Up to 3% of the fair value of the assets held under the donor-restricted endowment is appropriated for spending from the donor restricted endowment fund, and any additional return on the endowment assets is retained to grow the endowment fund.

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

7. ENDOWMENT FUNDS (continued)

Investment Policy, Strategies, and Objectives

The Organization has adopted an investment objective of long-term growth and income to preserve the value of the fund for future use. To achieve its distribution objectives, the Organization's investment policy is to substantially invest their endowment assets in a balanced investment pool at the Archdiocese of San Francisco, a related party. The investment pool is designed to achieve long-term investment objectives of moderate growth and income requirements with moderate risk. The performance of the investment pool is monitored to ensure prudent investment and spending of the donor endowments under UPMIFA law.

Funds with Deficiencies

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor or UPMIFA requires the Organization to retain as a fund of perpetual duration. No deficiencies were noted at June 30, 2019.

Net changes in endowment funds were as follows:

	Maintained in Perpetuity	Unappropriated Endowment Earnings	Total
Balance as of June 30, 2018	\$ 1,255,877	\$ 328,341	\$ 1,584,218
Net investment return	-	108,559	108,559
Contributions	58,790	-	58,790
Appropriations	-	(37,483)	(37,483)
Balance at June 30, 2019	<u>\$ 1,314,667</u>	<u>\$ 399,417</u>	<u>\$ 1,714,084</u>

8. COMMITMENTS AND CONTINGENCIES

Commitments

The Organization leases office and program space and equipment for its operations under various non-cancelable operating leases expiring through 2026. The aggregate remaining minimum rental payments required under the terms of existing leases as of June 30, 2019 are as follows:

Year Ending June 30,	
2020	\$ 1,137,000
2021	1,045,000
2022	942,000
2023	816,000
2024	727,000
Thereafter	<u>368,000</u>
	<u>\$ 5,035,000</u>

Rental expense amounted to \$1,166,526 for the year ended June 30, 2019.

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
June 30, 2019

8. COMMITMENTS AND CONTINGENCIES (continued)

Contingencies

The Organization 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 the Organization expects such amounts, if any, to be immaterial.

The Organization 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.

9. EMPLOYEE BENEFIT PLANS

The Organization has two defined contribution retirement plans, for union and non-union employees. The Organization contributes a percentage of the employee's compensation. Employees are eligible to participate in the plans immediately. The matching contributions under both plans aggregated \$543,342 for the year ended June 30, 2019.

10. 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, 2019.

<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 #16473	N/A	7/1/18 - 6/30/2019	\$ 349,517

11. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization has a goal to maintain financial assets to meet sixty days of normal operating expense, which is on average \$4,000,000. This is in addition to daily operating cash requirements. As part of its liquidity management, the Organization keeps cash in excess of daily requirements in checking accounts at various banking institutions, treasury notes, and other short-term investments.

CATHOLIC CHARITIES CYO OF THE ARCHDIOCESE OF SAN FRANCISCO
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11. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS (continued)

Financial assets available for general expenditure without donor or other restrictions limiting their use within one year of the consolidated statement of financial position date, comprise of the following:

Financial assets at June 30, 2019:	
Cash and cash equivalents	\$ 1,337,573
Investments	11,214,930
Program receivables	5,547,470
Contribution receivables	<u>481,485</u>
Total financial assets	<u>18,581,458</u>
Less amounts not available to meet general expenditures within one year:	
Board designated net assets	(1,240,281)
Donor restricted net assets	(4,920,730)
Add: Donor restrictions expected to be released within one year	<u>802,903</u>
	<u>(5,358,108)</u>
Financial assets available to meet general expenditures within one year	<u><u>\$ 13,223,350</u></u>

12. RESTATEMENT OF BEGINNING BALANCES

After an internal review of the financial information for 1340 Golden Gate L.P., the Organization discovered that interest from one of its loans with the City and County of San Francisco was not being accrued in accordance with the terms of the loan agreement. Accordingly, the Organization restated its loans payable and beginning net assets as of July 1, 2018. The effect of the restatement on the Organization as of July 1, 2018 was as follows:

	<u>As originally stated</u>	<u>As restated</u>
Loans payable	<u>\$ 6,553,704</u>	<u>\$ 7,529,288</u>
Net assets without donor restrictions	<u>\$ 18,958,584</u>	<u>\$ 17,983,000</u>
Total net assets	<u>\$ 23,375,971</u>	<u>\$ 22,400,387</u>