FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION

As of and for the Year Ended June 30, 2014

And Report of Independent Auditor



# TABLE OF CONTENTS

FINANCIAL STATEMENTS	
Statement of Financial Position	3
Statement of Activities and Changes in Net Assets	4
Statement of Cash Flows	5
Notes to Financial Statements	6-17



# **Report of Independent Auditor**

Board of Directors Catholic Charities of the Diocese of Raleigh, Inc. Raleigh, North Carolina

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

We have audited the accompanying financial statements of Catholic Charities of the Diocese of Raleigh, Inc. ("Catholic Charities"), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities and changes in net assets 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.

### **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. 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 Catholic Charities' 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 Catholic Charities' 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 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 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.

### Reclassification

As discussed in Note 17 to the financial statements, Catholic Charities reclassified a portion of its funds functioning as endowment net assets from temporarily restricted to unrestricted. Our opinion is not modified with respect to this matter.

#### Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements of Catholic Charities as a whole. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Raleigh, North Carolina January 29, 2015

Cheumy Roubert LLP

2

# STATEMENT OF FINANCIAL POSITION

JUNE 30, 2014

ASSETS	
Cash	\$ 560,570
Diocesan savings	635,259
Certificate of deposit and other savings	142,314
Pooled investment fund	2,329,105
Accounts receivable	52,313
Prepaid expenses	868
Inventory	413,915
Fixed assets (net of accumulated depreciation of	-,
\$471,957)	98,968
Security deposits	15,038
,	
Total assets	\$ 4,248,350
LIABILITIES AND NET ASSETS	
Liabilities:	Φ 222.22
Accounts payable and other liabilities	\$ 233,297
Net assets:	
Unrestricted	2,354,918
Temporarily restricted	1,660,135
Total net assets	4,015,053
Total liabilities and net assets	\$ 4,248,350

# STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

		Temporarily	
	Unrestricted	Restricted	Total
Support and revenue:		_	
Diocese of Raleigh allocations	\$ 1,206,808	\$ -	\$ 1,206,808
Grants received	398,527	93,050	491,577
Emergency Food Shelter Program/FEMA	43,456	-	43,456
Federal commodities received	250,578	-	250,578
United Way allocations	176,596	-	176,596
Donated materials	3,263,514	<u>-</u>	3,263,514
Gifts and bequests	1,494,783	2,848	1,497,631
Program service fees	244,068	-	244,068
Special events	257,480	-	257,480
Interest and dividends	56,135	-	56,135
Gain on sale of investments	118,064	-	118,064
Unrealized gain on investments	176,280	-	176,280
Other income	5,957		5,957
Total support and revenue before release of restrictions	7,692,246	95,898	7,788,144
Net assets released from restrictions	59,800	(59,800)	
Total support and revenue after release of restrictions	7,752,046	36,098	7,788,144
Expenses:			
Program areas:	4.40.400		4.40.400
Immigration Services	142,190	-	142,190
Parish Social Ministry	45,308	-	45,308
Raleigh Office	396,770	-	396,770
Support Circles	147,465	-	147,465
Catholic Parish Outreach	3,916,880	-	3,916,880
Centro para Familias Hispanas	91,525	-	91,525
Smart Start Wake	116,786	-	116,786
Albemarle Office	130,348	-	130,348
Cape Fear Office	142,825	-	142,825
Cape Fear Family Support Services	84,608	-	84,608
Fayetteville Office	185,943	-	185,943
Fayetteville Family Support Services Tar River Office	62,396	-	62,396
New Bern Office	116,053	-	116,053
	115,642	-	115,642
Senior Pharmacy Program Piedmont Office	92,932	-	92,932
	397,180	-	397,180
CHANGE Program  Riedmant Courseling	58,621 64,410	-	58,621 64,419
Piedmont Counseling	64,419	-	•
Centro: la Comunidad	141,735	-	141,735
Newton Grove Office	75,721	-	75,721
Disaster Response	15,443		15,443
Total program areas	6,540,790	-	6,540,790
Administrative	621,454		621,454
Total expenses	7,162,244		7,162,244
Change in net assets	589,802	36,098	625,900
Net assets - beginning of year	1,236,043	2,153,110	3,389,153
Retrospectively applied reclassification	529,073	(529,073)	
Net assets - beginning of year as retrospectively applied	1,765,116	1,624,037	3,389,153
Net assets - end of year	\$ 2,354,918	\$ 1,660,135	\$ 4,015,053

# STATEMENT OF CASH FLOWS

Cash flows from operating activities:		
Cash received from grantors, donors and clients	\$	3,902,579
Cash paid to suppliers and employees		(3,572,496)
Cash para to suppliers and employees		(3,372,430)
Net cash and cash equivalents from operating activities		330,083
Cash flows from investing activities:  Net redemption of investments		-
Purchase of fixed assets		(15,871)
Net cash and cash equivalents from investing activities		(15,871)
Net change in cash and cash equivalents		314,212
Cash and cash equivalents - beginning of year		1,023,931
Cash and cash equivalents - end of year	\$	1,338,143
Reconciliation of change in net assets to net cash and		
cash equivalents provided by operating activities:		
Change in net assets	\$	625,900
Adjustments to reconcile change in net assets to net	·	•
cash and cash equivalents provided by operating activities:		
Interest and dividends reinvested		(34,663)
Realized gain on investments		(118,064)
Unrealized gain on investments		(176,280)
Increase in donated materials inventory		(74,687)
Amortization of note receivable		(4,088)
Allowance for uncollectible note receivable		8,212
Depreciation		47,189
Decrease (increase) in:		
Accounts receivable		36,309
Prepaid expenses		3,891
Security deposits		260
Increase (decrease) in:		
Accounts payable and other liabilities		16,104
		· · · · · · · · · · · · · · · · · · ·
Net cash and cash equivalents from operating activities	\$	330,083
Summarized data:	_	
Cash	\$	560,570
Diocesan savings		635,259
Certificate of deposit and other savings		142,314
	\$	1,338,143

# NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

#### Note 1—Description of the organization

Organization - The mission of Catholic Charities of the Diocese of Raleigh, Inc. ("Catholic Charities") is to assist the parishes, communities, and the Diocese of Raleigh (the "Diocese") in accomplishing the social mission of the church. In its roles of servant, advocate, facilitator, and convener, Catholic Charities acts in the parish and community-at-large to heighten awareness of issues and, when appropriate, provides services to fulfill unmet needs. Catholic Charities serves people in need through advocating for social and economic justice as well as addressing immediate needs with emergency resources or direct service.

### Note 2—Summary of significant accounting policies

Basis of Accounting - The financial statements of Catholic Charities have been prepared on the accrual basis of accounting. The significant accounting policies are described below to enhance the usefulness of the financial statements to the reader.

Basis of Presentation - Catholic Charities' financial statements are prepared in accordance with accounting principles generally accepted in the United States of America ("GAAP"). Accordingly, revenues, expenses, gains, and losses are classified based on the existence or absence of donor imposed restrictions. As a result, the net assets of Catholic Charities and changes therein are classified and reported as either unrestricted net assets, temporarily restricted net assets, or permanently restricted net assets.

#### Unrestricted net assets

Net assets that are not subject to donor imposed stipulations.

#### Temporarily restricted net assets

Net assets that are subject to donor imposed stipulations that may or will be met either by actions of Catholic Charities and/or by the passage of time.

#### Permanently restricted net assets

Net assets subject to donor imposed stipulations that require funds to be permanently maintained by Catholic Charities.

Cash and Cash Equivalents – Catholic Charities considers temporary deposits in financial institutions, Diocesan savings and all certificates of deposit accessible with little to no penalty to be cash equivalents.

Receivables – Catholic Charities periodically evaluates the receivable balances as well as the status of any significant past due accounts to determine if any balances are uncollectible. When management determines that a receivable is uncollectible, the balance is removed from the receivables balance and is charged directly against earnings. Subsequent recoveries of amounts previously written off are credited directly to earnings.

Inventory – Catholic Charities' inventory consists of donated and purchased food as well as donated clothing and household goods on hand at the end of the fiscal year. Catholic Charities values inventory at cost or, if donated, a stated value determined by Feeding America, Inc. for food inventory and at estimated thrift store values for clothing and household goods. The value of food, clothing and household goods donated is recorded as a contribution when received and reported as an expense when distributed in the statement of activities and changes in net assets.

#### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

# Note 2—Summary of significant accounting policies (continued)

Fixed Assets – Fixed assets, primarily consisting of leasehold improvements, office furniture, and equipment, are recorded at cost using a capitalization threshold of \$500 and depreciated over the estimated useful lives of the assets. In accordance with Catholic Charities' policy, fixed assets are included in unrestricted net assets. Depreciation is computed using the straight-line method with estimated useful lives ranging from three to ten years. Of total depreciation expense of \$47,189 for the year ended June 30, 2014, \$14,056 is reflected in administrative expenses and \$33,133 is included in program expenses. Maintenance and repairs are charged to expense while major renewals are capitalized. The cost of equipment retired and disposed of, as well as related accumulated depreciation, is eliminated from the accounts with the resulting gain or loss included in operations.

Revenue Recognition – Contributions are recognized when the donor makes an unconditional promise to transfer assets. Catholic Charities reports gifts of cash and other assets as temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets for time or for purpose. When a donor restriction expires, whether a stipulated time restriction ends and/or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. If a restriction is fulfilled in the same period in which the contribution is received, Catholic Charities reports the support as unrestricted. In the event that both temporarily restricted and unrestricted monies are available for use of activities that comply with donor restrictions, Catholic Charities will use temporarily restricted funds first. Promises to give that are expected to be collected within one year are recorded at net realizable value. Promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows.

Intentions-to-Give – From time to time, Catholic Charities is notified that it is named as a beneficiary in a will or trust document. To the extent that these bequests are revocable during the lifetime of the donor, these intentions-to-give are not recorded in the financial statements of Catholic Charities.

Compensated Absences – Compensated absences such as vacation are not subject to carryover for employees of Catholic Charities except under special pre-approved situations. Accordingly, no accrual is provided for compensated absences as of June 30, 2014.

Contributed Services – A substantial number of unpaid volunteers have made significant contributions of their time to develop Catholic Charities' programs. The value of this contributed time is not reflected in the financial statements as it is not susceptible to objective measurement or valuation.

Expense Recognition and Allocation - The cost of providing the organization's programs and other activities is summarized on a functional basis in the statement of activities and changes in net assets. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited. Administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the organization.

Estimates – The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results will differ from those estimates.

*Income Taxes* – Catholic Charities is a non-profit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on activities which are consistent with its mission. Accordingly, no income taxes have been provided in the accompanying financial statements.

#### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

### Note 2—Summary of significant accounting policies (continued)

Management has evaluated the effect of the guidance provided by the provisions of GAAP for Uncertainty in Income Taxes. Management believes that Catholic Charities continues to satisfy the requirements of a tax-exempt organization at June 30, 2014. Management has evaluated all other tax positions that could have a significant effect on the financial statements and determined Catholic Charities had no uncertain income tax positions at June 30, 2014. The tax years ending 2011, 2012 and 2013 are still open to audit for both federal and state purposes. Catholic Charities is not classified as a private foundation.

Other Matters – Ordinary income and gains and losses arising from the sale, collection, or other disposition of investments, receivables, and the like are accounted for in the net asset group owning such assets. Income derived from investments of restricted net assets is unrestricted unless the income has been restricted by the donor.

#### Note 3—Financial instruments

Catholic Charities places its cash and cash equivalents on deposit with financial institutions in the United States. The Federal Deposit Insurance Corporation (FDIC) covers \$250,000 for substantially all depository accounts. In addition, the FDIC provided unlimited coverage for certain qualifying and participating non-interest bearing transaction accounts through December 31, 2012; however, effective January 1, 2013, the FDIC discontinued the additional unlimited coverage. During the year, Catholic Charities from time to time may have had amounts on deposit in excess of the insured limits. Additionally, at June 30, 2014, Catholic Charities had balances in excess of FDIC of \$279,455. The cash balances are maintained at financial institutions with high credit quality ratings and Catholic Charities believes no significant risk of loss exists with respect to those balances. Catholic Charities also maintains a savings account with the Diocese. While these deposits are not subject to FDIC insurance, Catholic Charities believes no significant risk of loss exists with respect to those balances.

#### Note 4—Inventory

Inventory composition by type is as follows as of June 30:

	2014
Donated and purchased food	\$ 282,650
Clothing and household goods	131,265
	\$ 413,915

#### Note 5—Fair value measurements

GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. GAAP also establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy consists of three broad levels of inputs that may be used to measure fair value are as follows:

#### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

# Note 5—Fair value measurements (continued)

Level 1 – Inputs to the valuation methodology are quoted prices available in active markets for identical assets and are given the highest priority;

Level 2 - Inputs consist of observable inputs other than quoted prices for identical assets; and

Level 3 – Inputs consist of unobservable inputs and are given the lowest priority.

Below are Catholic Charities' financial instruments carried at fair value on a recurring basis by the fair value hierarchy levels:

	At June 30, 2014							
	IV	oted Prices in Active larkets for Identical Assets (Level 1)		oservable Inputs Level 2)	Uno I	nificant bservable nputs evel 3)	F	Total air Value
Pooled investment funds:		•		•				
Common stocks - domestic	\$	168,575	\$	-	\$	-	\$	168,575
Common stocks - international		259,758		-		-		259,758
Mutual funds - domestic		493,175		-		-		493,175
Mutual funds - international		514,141		-		-		514,141
Bond funds		674,633		-		-		674,633
Alternative investments		-		-		79,581		79,581
Cash and cash equivalents		139,242						139,242
Total investments		2,249,524		-		79,581		2,329,105
Inventory				413,915		-		413,915
Total	\$	2,249,524	\$	413,915	\$	79,581	\$	2,743,020

Catholic Charities uses appropriate valuation techniques based on the available inputs. When available, Catholic Charities measures fair value using Level 1 inputs as they generally provide the most reliable evidence of fair value. Level 2 and Level 3 inputs are only used when Level 1 inputs were not available. The market approach was used for the portion of pooled investment fund classified as Level 1 and the inventory classified as Level 2 while the income approach was used for those classified as Level 3.

Level 2 assets include food, clothing, and household goods inventories. Donated and purchased food inventories are presented at the standard cost that is influenced by product mix as determined by Feeding America, Inc. The standard cost was \$1.72 per pound at June 30, 2014. The fair value of donated clothing and household goods inventories are estimated using thrift shop values published by leading national organizations for similar items based on their condition.

Catholic Charities relies on fair value measurement calculations performed by third party pricing services for those instruments reported in level 3. Inputs include the credit risk of the issuer, maturity, current yield, and other terms and conditions of each instrument. There were no changes to valuation techniques during the year ended June 30, 2014.

#### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

#### Note 5—Fair value measurements (continued)

At June 30, 2014, Catholic Charities' Level 3 investments consisted of an alternative investment in a hedge fund, Pinehurst Institutional Ltd. – Class B ("Pinehurst"), whose strategy is to seek to achieve capital appreciation with limited volatility through an actively managed, opportunistic multi-strategy portfolio of hedge fund investments. Catholic Charities does not have any unfunded commitments related to this investment. The investment in Pinehurst may be redeemed, with 100 days' prior written notice, as of the last day of any calendar year, provided, that if redemption requests for a redemption date are received representing, in the aggregate, more than 25% of the fund's net assets, requests may be reduced on a pro rata basis among all of the investors requesting redemptions so that no more than 25% of the fund's net assets will be paid out. In addition, Catholic Charities may request, with 100 days' written notice, to redeem up to 25% of the investment held as of January 1<sup>st</sup> of the calendar year, on March 31, June 30 and September 30. Catholic Charities may not redeem less than all of its shares in Pinehurst if the remaining net asset value of the shares held are less than \$1,000,000 without obtaining a waiver from the investment manager.

During the year ending June 30, 2014, Catholic Charities was notified that its interest in another level 3 alternative investment, AlphaMosaic (US) LLC, intended to cease trading and enter into an orderly liquidation. Catholic Charities received a full redemption of its investment during the fiscal year ended June 30, 2014.

The preceding methods may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values.

Beginning and ending assets and liabilities measured at fair value on a recurring basis using significant unobservable inputs (Level 3) are reconciled as follows:

	Α	Iternative
	In	vestments
Asset at June 30, 2013	\$	194,888
Purchases, sales, issuances and settlements, net		(115,307)
Asset at June 30, 2014	\$	79,581

The related realized and unrealized net gains and losses are reported in the statement of activities and changes in net assets as gain on sale of investments and unrealized gain on investments.

#### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

#### Note 6—Investments

Catholic Charities participates in a pooled investment fund that is administered by the Diocese and managed by a fiscal agent. As of June 30, 2014, Catholic Charities' portion of the Diocese's pooled investment fund consisted of the following:

	2014				
		Cost	Market Value		
Common stocks - domestic	\$	101,922	\$	168,575	
Common stocks - international		184,758		259,758	
Mutual funds - domestic		299,461		493,175	
Mutual funds - international		349,825		514,141	
Bond funds		657,723		674,633	
Hedge funds		65,481		79,581	
Cash and cash equivalents		139,242		139,242	
Total Assets	\$	1,798,412	\$	2,329,105	

# Note 7—Funds Functioning as Endowment ("Endowment")

Historically, the Catholic Charities endowment consisted of approximately 3 individual funds established primarily for children and family programs that were included in the pooled investment fund described in Note 6. During the year, Catholic Charities reviewed its policies with respect to its accounting and reporting of the endowment. During this review it was noted that only monies invested in the pooled investment fund were reported as part of the endowment, though certain funds held on deposit at the Diocese were also considered in the overall investment strategy and were subject to the same spending policies. As a result of this review, Catholic Charities deemed it was appropriate to add the balance of a saving account held at the Diocese to the endowment. The endowment includes donor-restricted endowment funds and funds designated by the Board of Directors to function as endowments. As required by GAAP, net assets associated with Catholic Charities' endowment funds, including funds designated by the Diocesan Finance Council ("Council") of the Diocese to function as endowments, are classified and reported based on the existence or absence of donor-imposed restrictions in the accompanying statement of financial position and activities and changes in net assets. Catholic Charities has delegated the administration of the endowments to the Council and the endowments are held in custody by the Diocese.

Catholic Charities has no permanently restricted endowment funds and all donor-restricted endowment funds are classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Council. The Council considers the following factors in making decisions related to appropriations for expenditures or accumulations of donor-restricted endowment funds:

- (1) the duration and preservation of the various funds;
- (2) the purposes of the donor-restricted 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 Catholic Charities; and
- (7) Catholic Charities' investment policies.

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

### Note 7— Funds Functioning as Endowment (continued)

Investment Return Objectives, Risk Parameters and Strategies:

Catholic Charities has adopted investment policies, directed by the Council, that attempt to emphasize total return. While shorter-term investment results are monitored, adherence to the sound long-term investment policy balancing short-term spending needs with the preservation of the real inflation-adjusted value of assets is of primary importance. Catholic Charities expects to attain an inflation-adjusted minimum average annual return, net of fees, over a rolling ten-year period. This real return is defined as the sum of capital appreciation (loss) and current income (interest and dividends) adjusted for inflation as measured by the Consumer Price Index. Investment policies are based on principles of responsible financial stewardship, as well as ethical and social stewardship. Catholic Charities and the Council are committed to a diversified asset allocation strategy, consisting primarily of domestic equities, international equities, domestic fixed income, international fixed income and alternative investments.

Spending Policy – Catholic Charities' policy is that the annual income distribution available from endowment funds is a maximum of 4.25% of the three-year average fair value of the endowment, measured at December 31 of the prior fiscal year.

Endowment composition by type of fund is as follows as of June 30:

		2014	
		Temporarily	
	Unrestricted	Restricted	Total
Donor-restricted endowment funds	\$ -	\$ 1,370,536	\$ 1,370,536
Board-restricted endowment	1,575,892		1,575,892
Total	\$ 1,575,892	\$ 1,370,536	\$ 2,946,428

Changes in endowment for the year ended June 30:

		2014	
		Temporarily	
	Unrestricted	Restricted	Total
Endowment as originally presented at 6/30/13	\$ 494,475	\$ 1,509,747	\$ 2,004,222
Reclassification as described in Note 17	529,073	(529,073)	
Endowment as retrospectively presented at 6/30/13	1,023,548	980,674	2,004,222
Addition of Diocesan savings account			
acting as an endowment	208,656	389,862	598,518
Investment income	49,344	-	49,344
Realized gain on disposal of securities	118,064	-	118,064
Net appreciation of securities	176,280		176,280
Total	\$ 1,575,892	\$ 1,370,536	\$ 2,946,428

#### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

#### Note 8—Note receivable

In 2000, Catholic Charities entered into an agreement with Affordable Housing Advisors, LLC, whereby \$75,000 was loaned to Catholic Housing-Sacred Heart Villas, LLC. Terms of the note call for annual payments equal to 20% of the available net cash flow for the immediate preceding fiscal year of the project. No payments have been received by Catholic Charities since inception of the note as the project's net cash flow has not been sufficient to require a payment.

Interest is at the rate of 0.5% for years 1-5, 1.0% for years 6-10, 4.5% for years 11-15, 5.5% for years 16-20, and 8.5% for years 21-30 per annum on the unpaid balance. The note was discounted based on an effective interest rate of 5.5% for the initial fifteen years. Amortization of the discount for the year ended June 30, 2014 of \$4,088 is included in other income.

The note is secured by a deed of trust on real property. However, in 2005, Catholic Charities concluded a reasonable uncertainty existed as to the ability to collect on the note. The note security was also not deemed adequate to offset the uncertainty. The note and related accrued interest were fully reserved as of June 30, 2014. Administrative expense for the year ended June 30, 2014 includes \$8,212 to fully reserve the note and related accrued interest as of June 30, 2014. Catholic Charities will continue to aggressively pursue the collection of the note and related interest amounts in accordance with the agreement.

The note receivable consisted of the following as of June 30:

	 2014
Notes receivable	\$ 75,000
Accrued interest receivable	20,775
Less: unamortized discount	 (4,354)
Total	91,421
Less: allowance for uncollectible note	 (91,421)
Balance	\$ -

# Note 9—Temporarily restricted net assets

Temporarily restricted net assets are made up of funds given by donors with restrictions that they be used at a particular time and/or for a particular purpose. Temporarily restricted net assets consisted of the following as of June 30:

	2014
Children and Family Programs	\$ 1,370,536
CPO/CFH Programs	20,493
Disaster Response	108,413
Piedmont Deanery bequests	42,568
Catholic Campaign for Human Development	26,050
Keck Estate	13,439
Kathleen Walsh Charitable Fund	7,062
Support Circle program	 71,574
Total	\$ 1,660,135

#### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

#### Note 10—Governmental assistance

Catholic Charities received governmental revenues totaling \$529,893 for the year ended June 30, 2014. Of this amount, \$250,578 represented federal commodities received and recorded.

# Note 11—Related party transactions

Catholic Charities maintains a savings account with the Diocese. Catholic Charities earned \$18,939 in interest on this account for the year ended June 30, 2014. Catholic Charities had \$635,259 invested in the account bearing an interest rate of 3.10% at June 30, 2014.

In addition to interest, Catholic Charities received in support and revenue from the Diocese the amount of \$1,256,851 during the year ended June 30, 2014. This included \$1,206,808 in allocations from the Bishop's Annual Appeal for the year ended June 30, 2014. Catholic Charities incurred charges from the Diocese of \$179,923 for rent, accounting, stewardship and development and other fiscal services during the year ended June 30, 2014. Included in accounts payable and other liabilities on the accompanying statement of financial position is \$31,972 of amounts payable to the Diocese as of June 30, 2014.

### Note 12—Defined benefit pension plans

Catholic Charities participates in a multi-employer noncontributory defined benefit retirement plan entitled the Retirement Plan for Lay Employees of the Bishop of the Roman Catholic Diocese of Raleigh, North Carolina for which the EIN number is 56-0591293 ("Lay Plan"). The Lay Plan is separately valued and funded by contributions from various employing units throughout the Diocese. Substantially all employees of Catholic Charities were covered under this plan. Pension benefits provided under the plan allow for a monthly annuity payment equal to 1/12 of the product of the years of qualified benefit service not to exceed 40 years and 1% of the final average compensation as defined by the Plan. Participants are eligible to begin receiving benefits no earlier than age 65 and the plan contains provisions for payments to surviving spouses in certain circumstances. In substantially all circumstances, a participant in the plan becomes fully vested after five years of eligible service. The risks of participating in this multi-employer plan are different from a single employer plan in the following aspects:

- a) Assets contributed to the multi-employer plan by one employer may be used to provide benefits to employees of other participating companies;
- b) If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating parishes, schools, and other entities:
- c) If Catholic Charities stops participating in the plan, it could be required to pay an amount, referred to as withdrawal liability, based on the unfunded status of the plan. Catholic Charities has no intention of stopping its participation in the plan.

During the year ended June 30, 2010, the Council approved a recommendation by management of the Diocese to execute a hard freeze of the Lay Plan as of January 2011. The various employing units throughout the Diocese continue to fund existing obligations of the Lay Plan from before the hard freeze was executed. Catholic Charities contributed \$59,752 to the Lay Plan for the year ended June 30, 2014, which represented approximately 2.6% of the total contributions of all employing units to the Lay Plan.

#### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

#### Note 12—Defined benefit pension plans (continued)

The actuarial present value of vested and non-vested accumulated plan benefits and net assets available for benefits is not determined for the individual entities participating in this multi-employer plan and, accordingly, such information is not presented herein. Because the employing units participating in the Plan are parishes and related organizations of the Diocese, Catholic Charities relies upon each employing unit to contribute their required contribution to ensure that pension obligations under the Plan are met. In the event that individual employers of the Plan are unable to make their required contributions, the obligations would be reallocated to the remaining contributing units.

	As of January 1,
	2014
Market value of plan assets	\$ 30,552,085
Present value of accrued plan benefits	\$ 36,725,670
Percent funded	83.2%
Total contributions to the Plan	\$ 2,276,341
Total employees covered under the Plan	1,668
Discount rate used to value the Plan liability	7%

# Note 13—Investment savings Plan

Catholic Charities offers its employees a pretax Internal Revenue Code Section 403(b) Plan ("403(b) Plan"). Under the provisions of the 403(b) Plan, substantially all employees are covered. For the year ended June 30, 2014, Catholic Charities contributed \$.50 for each \$1 invested by employees on the first 5% of qualified compensation, plus a non-contributory deferral of 4% of qualified compensation into accounts of all eligible employees, up to a maximum of 6.5% of qualified compensation per employee. Participants in the 403(b) Plan are immediately vested in their employee contributions and in the basic matching contribution provided by Catholic Charities. Employees are vested in Catholic Charities' non-contributory deferral contribution after five years of service. Contributions to the 403(b) Plan for the year ended June 30, 2014 totaled \$72,740.

#### Note 14—Leases

Catholic Charities leases various office spaces under non-cancelable leases with various expiration dates through 2020. Catholic Charities' rental expense was \$273,925 for the year ended June 30, 2014.

Future minimum rental commitments under the leases are as follows:

Year Ending June 30	
2015	\$ 266,947
2016	188,723
2017	62,940
2018	62,940
2019	62,940
Thereafter	12,545
	\$ 657,035

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

#### Note 15—Fundraising

Catholic Charities conducts certain fundraising activities in order to generate revenues to assist in supporting its programs and activities. Fundraising expenses of \$135,599 are included in administrative expense for the year ended June 30, 2014.

### Note 16—Contributed goods

Catholic Charities receives donated goods, primarily groceries, clothing and household goods, from organizations, schools, individuals, and other sources. Catholic Charities accepts and distributes these donations to needy families and individuals in the community. During the year ended June 30, 2014, Catholic Charities recorded receipts of donated food, clothing and other goods with a value of \$3,514,092 and disbursements of \$3,813,293.

Catholic Charities' primary facility for the receipt and subsequent distribution of donated groceries is Catholic Parish Outreach. Catholic Parish Outreach received and distributed approximately 891 tons of donated groceries during the year ended June 30, 2014.

### Note 17—Retrospective presentation resulting from reclassification

During the year, Catholic Charities reviewed its policies with respect to its accounting and reporting of the endowment. This review consisted of analyzing historical donor restrictions and the treatment of the accumulation of earnings within the endowment, as well as revisiting the funding vehicles used to administer the endowment. Historically, Catholic Charities included a substantial portion of accumulations of net earnings in the endowment as temporarily restricted net assets. As a result of this review, Catholic Charities has determined to retroactively restate net assets relating to the accumulation of income, unrealized and realized gains and losses earned on the endowment as additions to the board restricted portion of the endowment rather than as temporarily restricted net assets. A summary of the impact of the retrospective reclassification is as follows. Total net assets was unaffected by this reclassification.

Tomporarily

	remporarily				
	Unres	stricted	R	estricted	Total
Net Assests as originally presented at 6/30/13	\$ 1,2	236,043	\$	2,153,110	\$ 3,389,153
Reclassification of accumulated endowment net earnings to					
unrestricted (board restricted)		529,073		(529,073)	-
Net Assets as retrospectively presented at 6/30/13	\$ 1,	765,116	\$	1,624,037	\$ 3,389,153

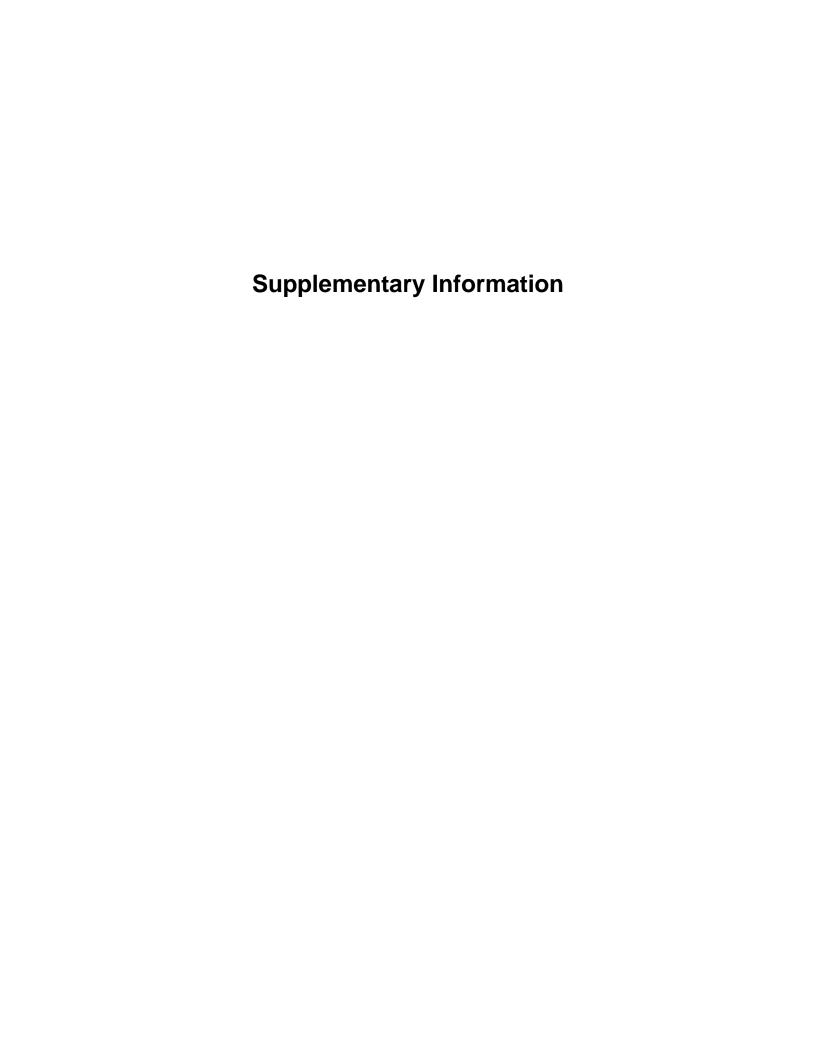
# **NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2014

# Note 18—Subsequent events

Catholic Charities has evaluated subsequent events for disclosure and recognition through January 29, 2015, the date on which these financial statements were available to be issued.

In January 2015 the Board of Catholic Charities approved accepting a proposed settlement of \$25,000 for the outstanding Catholic Housing-Sacred Heart Villas, LLC note receivable described in Note 8.



# SCHEDULE OF FUNCTIONAL EXPENSES

	Immigration Services	Parish Social Ministry	Raleigh Office	Catholic Parish Outreach	Centro para Familias Hispanas	Smart Start Wake		
Salaries and fringe benefits	\$ 84,172	\$ 13,439	\$ 263,333	\$ 91,955	\$ 57,851	\$ 100,982		
Equipment and supplies	1,507	-	1,630	4,172	695	600		
Depreciation	-	-	-	33,133	-	-		
Repairs and maintenance	-	-	931	28,225	8,842	1,920		
Telephone	66	-	3,191	2,893	2,231	-		
Utilities	-	-	-	13,927	3,187	810		
Rent	-	4,900	27,727	96,730	16,224	7,958		
Auto and travel	9,813	1,122	5,639	874	552	1,138		
Postage and printing	1,545	14	1,008	4,604	76	-		
Conferences and meetings	1,603	508	2,005	665	75	282		
Dues and subscriptions	800	-	790	-	-	-		
Program expenses	32,497	23,777	72,619	3,631,504	218	3,096		
Professional services	8,555	1,420	16,425	646	270	-		
Other	1,632	128_	1,472	7,552	1,304	<u> </u>		
	\$ 142,190	\$ 45,308	\$ 396,770	\$ 3,916,880	\$ 91,525	\$ 116,786		

# SCHEDULE OF FUNCTIONAL EXPENSES

	Albemarle Office	Cape Fear Office	Cape Fear Family Support Svc.	Fayetteville Office	Fayetteville Family Support Svc.	Tar River Office	
Salaries and fringe benefits	\$ 93,786	\$ 80,854	\$ 76,623	\$ 42,898	\$ 56,430	\$ 74,976	
Equipment and supplies	836	1,906	131	4,986	-	1,266	
Depreciation	-	-	-	-	-	-	
Repairs and maintenance	810	2,352	-	2,705	-	1,771	
Telephone	1,388	3,057	3,346	4,373	-	2,653	
Utilities	4,423	2,774	-	6,964	-	1,699	
Rent	-	9,412	1,928	22,440	3,960	12,000	
Auto and travel	10,156	5,950	2,195	5,111	1,517	6,752	
Postage and printing	358	1,826	-	928	3	259	
Conferences and meetings	639	591	127	1,224	-	1,289	
Dues and subscriptions	87	380	-	320	-	-	
Program expenses	12,312	27,672	-	89,136	233	10,23	
Professional services	4,080	5,623	-	4,275	-	2,500	
Other	1,473	428	258	583	253	654	
	_\$ 130,348	\$ 142,825	\$ 84,608	\$ 185,943	\$ 62,396	\$ 116,05	

# SCHEDULE OF FUNCTIONAL EXPENSES

	 lew Bern Office	Pł	Senior Pharmacy Program		Piedmont Office		CHANGE Program		Piedmont Counseling		Centro: la Comunidad	
Salaries and fringe benefits	\$ 76,165	\$	27,795	\$	164,240	\$	15,645	\$	51,421	\$	106,461	
Equipment and supplies	1,141		351		883		484		228		1,112	
Depreciation	-		-		-		-		-		-	
Repairs and maintenance	2,239		-		2,605		691		1,097		2,429	
Telephone	1,558		781		3,699		1,122		1,782		1,740	
Utilities	5,037		-		1,804		547		869		2,273	
Rent	13,200		-		7,896		3,900		8,004		9,840	
Auto and travel	8,900		1,008		3,984		175		125		2,64	
Postage and printing	512		309		733		873		64		16	
Conferences and meetings	574		505		1,736		688		160		1,23	
Dues and subscriptions	-		530		33		50		380		-	
Program expenses	1,224		61,211		200,333		34,294		45		13,13	
Professional services	4,390		342		8,671		35		56		4	
Other	 702		100		563		117		188		65	
	\$ 115,642	\$	92,932	\$	397,180	\$	58,621	\$	64,419	\$	141,73	

# SCHEDULE OF FUNCTIONAL EXPENSES

	ton Grove Office	aster oonse	Support Circles	Adn	ninistrative	Total
Salaries and fringe benefits	\$ 46,308	\$ -	\$ 106,908	\$	336,645	\$ 1,968,887
Equipment and supplies	3,965	-	389		2,700	28,982
Depreciation	-	-	-		14,056	47,189
Repairs and maintenance	1,990	-	150		480	59,237
Telephone	4,015	-	985		1,368	40,248
Utilities	-	-	-		-	44,314
Rent	4,000	-	9,606		14,200	273,925
Auto and travel	6,120	-	4,449		8,985	87,213
Postage and printing	1,402	-	50		10,448	25,176
Conferences and meetings	626	-	-		9,112	23,646
Dues and subscriptions	543	-	-		3,847	7,760
Program expenses	4,098	15,443	24,329		61,972	4,319,384
Professional services	2,265	-	238		60,332	120,163
Other	 389	 	 361		97,309	 116,120
	\$ 75,721	\$ 15,443	\$ 147,465	\$	621,454	\$ 7,162,244