

**CATHOLIC CHARITIES OF THE DIOCESE  
OF RALEIGH, INC.**

FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION

*As of and for the Year Ended June 30, 2013*

*And Report of Independent Auditor*

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**

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## **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, 2013, 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 the 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, 2013, 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.

### **Emphasis-of-matter Regarding Prior Period Adjustment**

As discussed in Note 15 to the financial statements, Catholic Charities restated beginning net assets to correct a material misstatement in the prior period. 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.

*Cherry Roubert LLP*

Raleigh, North Carolina  
February 3, 2014

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**STATEMENT OF FINANCIAL POSITION**

*JUNE 30, 2013*

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**ASSETS**

Cash	\$ 267,815
Diocesan savings	616,320
Certificate of deposit and other savings	139,796
Pooled investment fund	2,004,222
Accounts receivable	88,622
Prepaid expenses	4,759
Inventory	339,228
Fixed assets (net of accumulated depreciation of \$424,768)	130,286
Security deposits	15,298
<b>Total assets</b>	<b>\$ 3,606,346</b>

**LIABILITIES AND NET ASSETS**

Liabilities:

Accounts payable and other liabilities	\$ 217,193
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Net assets:

Unrestricted	1,236,043
Temporarily restricted	2,153,110

**Total net assets** 3,389,153

**Total liabilities and net assets** \$ 3,606,346

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**

YEAR ENDED JUNE 30, 2013

	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Support and revenue:			
Diocese of Raleigh allocations	\$ 1,178,112	\$ -	\$ 1,178,112
Grants received	451,538	64,785	516,323
Emergency Food Shelter Program/FEMA	64,724	-	64,724
Federal commodities received	297,139	-	297,139
United Way allocations	184,239	-	184,239
Donated materials	3,984,915	-	3,984,915
Gifts and bequests	1,297,503	55,431	1,352,934
Program service fees	233,678	-	233,678
Special events	201,636	-	201,636
Interest and dividends	15,449	51,004	66,453
Gain on sale of investments	7,532	24,247	31,779
Unrealized gain on investments	29,842	96,062	125,904
Other income	9,756	1,114	10,870
Total support and revenue before release of restrictions	<u>7,956,063</u>	<u>292,643</u>	<u>8,248,706</u>
Net assets released from restrictions	<u>240,129</u>	<u>(240,129)</u>	<u>-</u>
Total support and revenue after release of restrictions	<u>8,196,192</u>	<u>52,514</u>	<u>8,248,706</u>
Expenses:			
Program areas:			
Immigration Services	138,683	-	138,683
Parish Social Ministry	59,456	-	59,456
Raleigh Office	528,217	-	528,217
Catholic Parish Outreach	4,737,335	-	4,737,335
Centro para Familias Hispanas	104,470	-	104,470
Smart Start Wake	111,806	-	111,806
Albemarle Office	120,185	-	120,185
Cape Fear Office	190,656	-	190,656
Hispanic Case Management	83,208	-	83,208
Fayetteville Office	220,860	-	220,860
Cumberland County Family Outreach	71,301	-	71,301
Tar River Office	144,485	-	144,485
New Bern Office	149,946	-	149,946
Senior Pharmacy Program	90,774	-	90,774
Piedmont Office	413,459	-	413,459
CHANGE Program	74,114	-	74,114
Hispanic Counseling	65,095	-	65,095
Centro: la Comunidad	117,343	-	117,343
Newton Grove Office	64,076	-	64,076
Total program areas	<u>7,485,469</u>	<u>-</u>	<u>7,485,469</u>
Administrative	540,539	-	540,539
Total expenses	<u>8,026,008</u>	<u>-</u>	<u>8,026,008</u>
Change in net assets	<u>170,184</u>	<u>52,514</u>	<u>222,698</u>
Net assets - beginning of year	694,098	2,100,596	2,794,694
Prior period adjustment	<u>371,761</u>	<u>-</u>	<u>371,761</u>
Net assets - beginning of year as restated	<u>1,065,859</u>	<u>2,100,596</u>	<u>3,166,455</u>
Net assets - end of year	<u>\$ 1,236,043</u>	<u>\$ 2,153,110</u>	<u>\$ 3,389,153</u>

The accompanying notes to the financial statements are an integral part of this statement.

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**STATEMENT OF CASH FLOWS**

YEAR ENDED JUNE 30, 2013

<b>Cash flows from operating activities:</b>	
Cash received from grantors, donors and clients	\$ 3,738,029
Cash paid to suppliers and employees	(3,773,190)
	<u>(35,161)</u>
Net cash and cash equivalents from operating activities	<u>(35,161)</u>
<b>Cash flows from investing activities:</b>	
Redemption of investments	82,000
Purchase of fixed assets	(35,169)
	<u>46,831</u>
Net cash and cash equivalents from investing activities	<u>46,831</u>
Net change in cash and cash equivalents	11,670
Cash and cash equivalents - beginning of year	<u>1,012,261</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,023,931</u></u>
<b>Reconciliation of change in net assets to net cash and cash equivalents used in operating activities:</b>	
Change in net assets	\$ 222,698
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by (used in) operating activities:	
Interest and dividends reinvested	(40,844)
Realized gain on investments	(31,779)
Unrealized gain on investments	(125,904)
Amortization of note receivable	(3,838)
Allowance for uncollectible note receivable	7,784
Depreciation	46,274
Decrease (increase) in:	
Accounts receivable	(58,791)
Inventory	32,533
Prepaid expenses	(1,962)
Increase (decrease) in:	
Accounts payable and other liabilities	(81,332)
	<u>(35,161)</u>
Net cash and cash equivalents from operating activities	<u><u>\$ (35,161)</u></u>
<b>Summarized data:</b>	
Cash	\$ 267,815
Diocesan savings	616,320
Certificate of deposit and other savings	139,796
	<u><u>\$ 1,023,931</u></u>

The accompanying notes to the financial statements are an integral part of this statement.

# CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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### **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 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 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. The value of food 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.



# CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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### **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 \$46,274 for the year ended June 30, 2013, \$12,971 is reflected in administrative expenses and \$33,303 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.

*Donor Restricted Funds* – 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.

*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, 2013.

*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.

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, 2013. 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, 2013. The tax years ending 2010, 2011 and 2012 are still open to audit for both federal and state purposes. Catholic Charities is not classified as a private foundation.

# CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

*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. 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.

### **Note 4—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:

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.

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2013*

**Note 4—Fair value measurements (continued)**

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

	<b>At June 30, 2013</b>			
	<b>Quoted Prices in Active Markets for Identical Assets (Level 1)</b>	<b>Observable Inputs (Level 2)</b>	<b>Significant Unobservable Inputs (Level 3)</b>	<b>Total Fair Value</b>
Pooled investment funds:				
Common stocks - domestic	\$ 148,707	\$ -	\$ -	\$ 148,707
Common stocks - international	234,431	-	-	234,431
Mutual funds - domestic	586,735	-	-	586,735
Mutual funds - international	271,159	-	-	271,159
Bond funds	548,342	-	-	548,342
Alternative investments	-	-	194,888	194,888
Cash and cash equivalents	19,960	-	-	19,960
<b>Total investments</b>	<b>1,809,334</b>	<b>-</b>	<b>194,888</b>	<b>2,004,222</b>
Inventory	-	339,228	-	339,228
<b>Total</b>	<b>\$ 1,809,334</b>	<b>\$ 339,228</b>	<b>\$ 194,888</b>	<b>\$ 2,343,450</b>

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 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 \$1.69 per pound at June 30, 2013.

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, 2013.

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2013*

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**Note 4—Fair value measurements (continued)**

Alternative investments identified as level 3 consist of investments in two hedge funds, Pinehurst Institutional Ltd. – Class B (“Pinehurst”) and AlphaMosaic (US) LLC – Cell No. 41 (“Alpha”), whose strategies 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 investments in either fund. Catholic Charities’ investment in Alpha can be redeemed with two business days’ notice as of the 15th calendar day or the last business day of the month. 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 on January 1st 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 are less than \$1,000,000 without obtaining a waiver from the investment manager.

On November 1, 2013, prior to the issuance of the financial statements, Catholic Charities was notified that Alpha intended to cease trading as of October 31, 2013 and enter into an orderly liquidation. Catholic Charities received a payout of \$108,068 on November 19, 2013, representing 90% of the value of its investment and the remaining 10% is expected to be received after the final audit of the fund is performed. Catholic Charities has been informed by the custodian that it expects full redemption of Catholic Charities’ investment.

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:

	<b>Alternative Investments</b>
Asset at June 30, 2012	\$ 194,461
Purchases, sales, issuances and settlements, net	427
Asset at June 30, 2013	<u>\$ 194,888</u>

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.

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2013*

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**Note 5—Investments**

Catholic Charities participates in a pooled investment fund that is administered by the Diocese of Raleigh and managed by a fiscal agent. As of June 30, 2013, Catholic Charities' portion of the Diocese's pooled investment fund consisted of the following:

	2013	
	Cost	Market Value
Common stocks - domestic	\$ 96,154	\$ 148,707
Common stocks - international	189,030	234,431
Mutual funds - domestic	414,260	586,735
Mutual funds - international	221,102	271,159
Bond funds	546,346	548,342
Hedge funds	184,436	194,888
Cash and cash equivalents	19,960	19,960
Total Assets	<u>\$ 1,671,288</u>	<u>\$ 2,004,222</u>

The Catholic Charities endowment consists of approximately 3 individual funds established primarily for children and family programs. 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 of Raleigh 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.

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

JUNE 30, 2013

**Note 5—Investments (continued)**

*Investment Return Objectives, Risk Parameters and Strategies:*

Catholic Charities has adopted investment policies, directed by the Diocesan Finance 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 4.5% 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:

	<b>2013</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Donor-restricted endowment funds	\$ -	\$ 1,509,747	\$ 1,509,747
Board-restricted endowment	494,475	-	494,475
Total	<u>\$ 494,475</u>	<u>\$ 1,509,747</u>	<u>\$ 2,004,222</u>

Changes in endowment for the year ended June 30:

	<b>2013</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
Endowment beginning of year	\$ 448,356	\$ 1,443,285	\$ 1,891,641
Contributions	-	-	-
Investment income	8,745	28,153	36,898
Realized gain on disposal of securities	7,532	24,247	31,779
Net appreciation of securities	29,842	96,062	125,904
Amounts expended	-	(82,000)	(82,000)
Total	<u>\$ 494,475</u>	<u>\$ 1,509,747</u>	<u>\$ 2,004,222</u>

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2013*

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**Note 6—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, 2013 of \$3,838 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, 2013. Administrative expense for the year ended June 30, 2013 includes \$7,784 to fully reserve the note and related accrued interest as of June 30, 2013. 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:

	<b>2013</b>
Notes receivable	\$ 75,000
Accrued interest receivable	16,651
Less: unamortized discount	(8,442)
Total	83,209
Less: allowance for uncollectible note	(83,209)
Balance	\$ -

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2013*

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**Note 7—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:

	<b>2013</b>
Children and Family Programs	\$ 1,899,609
CPO/CFH Programs	25,493
Disaster Response	88,210
Piedmont Deanery bequests	45,569
Catholic Campaign for Human Development	26,050
Keck Estate	13,439
Kathleen Walsh Charitable Fund	14,085
Support Circle program	40,655
Total	<u>\$ 2,153,110</u>

**Note 8—Governmental assistance**

Catholic Charities received governmental revenues totaling \$546,449 for the year ended June 30, 2013. Of this amount, \$297,139 represented federal commodities received and recorded.

**Note 9—Related party transactions**

Catholic Charities maintains a savings account with the Diocese. Catholic Charities earned \$23,017 in interest on this account for the year ended June 30, 2013. Catholic Charities had \$616,320 invested in the account bearing an interest rate of 3.10% at June 30, 2013.

In addition to interest, Catholic Charities received in support and revenue from the Diocese the amount of \$1,245,955 during the year ended June 30, 2013. This included \$1,178,112 in allocations from the Bishop's Annual Appeal for the year ended June 30, 2013. Catholic Charities incurred charges from the Diocese of \$90,983 for rent, accounting, and other fiscal services during the year ended June 30, 2013. Included in accounts payable and other liabilities on the accompanying statement of financial position is \$17,945 of amounts payable to the Diocese as of June 30, 2013.



**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2013*

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**Note 10—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 \$61,983 to the Lay Plan for the year ended June 30, 2013, which represented approximately 5% of the total contributions of all employing units to the Lay Plan.

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.

	<b>As of January 1, 2013</b>
Market value of plan assets	\$ 26,354,587
Present value of accrued plan benefits	\$ 35,372,769
Percent funded	74.5%
Total contributions to the Plan	\$ 1,263,389
Total employees covered under the Plan	1,682
Discount rate used to value the Plan liability	7%

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2013*

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**Note 11 – 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, 2013, 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, 2013 totaled \$78,802.

**Note 12—Leases**

Catholic Charities leases various office spaces under non-cancelable leases with various expiration dates through 2016. Catholic Charities’ rental expense was \$268,322 for the year ended June 30, 2013.

Future minimum rental commitments under the leases are as follows:

<u>Year Ending June 30</u>	
2014	\$ 228,486
2015	198,352
2016	125,783
	<u>\$ 552,621</u>

**Note 13—Fundraising**

Catholic Charities conducts certain fundraising activities in order to generate revenues to assist in supporting its programs and activities. Fundraising expenses of \$41,451 are included in administrative expense for the year ended June 30, 2013.

**Note 14—Contributed goods**

Catholic Charities receives donated goods, primarily groceries and clothing, 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, 2013, Catholic Charities recorded receipts of donated food, clothing and other goods with a value of \$4,282,054 and disbursements of \$4,314,586.

Catholic Charities’ primary facility for the receipt and subsequent distribution of donated groceries is Catholic Parish Outreach. Catholic Parish Outreach received and distributed approximately 1,114 tons of donated groceries during the year ended June 30, 2013.

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

*JUNE 30, 2013*

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**Note 15—Prior period restatement**

During the year, Catholic Charities performed a comprehensive review of its policies and procedures over the accounting and reporting of donated and purchased materials collected and distributed as part of its mission. As a result of this review, it was determined that food and materials donated to Catholic Charities and subsequently distributed to beneficiaries, should be reported as contribution revenue and program expenses. It was also determined that it was appropriate to record inventory on hand at the end of each fiscal year. Accordingly, Catholic Charities recorded an adjustment to increase unrestricted net assets as of the beginning of the fiscal year by \$371,761, an estimate of inventories on hand as of June 30, 2012.

**Note 16—Subsequent events**

Catholic Charities has evaluated subsequent events for disclosure and recognition through February 3, 2014, the date on which these financial statements were available to be issued. No significant subsequent events have been identified by management.

## **Supplementary Information**

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**

*YEAR ENDED JUNE 30, 2013*

	<u>Immigration Services</u>	<u>Parish Social Ministry</u>	<u>Raleigh Office</u>	<u>Catholic Parish Outreach</u>	<u>Centro para Familias Hispanas</u>	<u>Smart Start Wake</u>
Salaries and fringe benefits	\$ 92,970	\$ 24,244	\$ 372,176	\$ 79,068	\$ 56,905	\$ 99,425
Equipment and supplies	987	175	3,061	7,150	4,405	-
Depreciation	-	-	-	33,303	-	-
Repairs and maintenance	507	-	820	27,516	10,097	1,000
Telephone	-	43	5,018	4,480	3,346	-
Utilities	-	-	-	15,820	4,400	720
Rent	-	4,900	37,497	92,732	15,659	7,524
Auto and travel	6,984	1,260	12,011	973	736	1,626
Postage and printing	1,654	34	1,275	4,383	91	-
Conferences and meetings	1,969	423	2,199	282	146	300
Dues and subscriptions	-	378	915	-	-	-
Program expenses	32,408	27,911	72,770	4,464,338	7,238	1,211
Professional services	412	-	18,995	577	10	-
Other	792	88	1,480	6,713	1,437	-
	<u>\$ 138,683</u>	<u>\$ 59,456</u>	<u>\$ 528,217</u>	<u>\$ 4,737,335</u>	<u>\$ 104,470</u>	<u>\$ 111,806</u>

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**

*YEAR ENDED JUNE 30, 2013*

	<u>Albemarle Office</u>	<u>Cape Fear Office</u>	<u>Hispanic Case Mgt.</u>	<u>Fayetteville Office</u>	<u>Cumberland Co. Family Outreach</u>	<u>Tar River Office</u>
Salaries and fringe benefits	\$ 84,641	\$ 113,042	\$ 74,041	\$ 69,591	\$ 65,950	\$ 103,323
Equipment and supplies	2,137	4,957	150	5,953	-	2,637
Depreciation	-	-	-	-	-	-
Repairs and maintenance	785	2,320	-	2,456	-	1,864
Telephone	1,262	3,031	3,495	5,502	-	2,240
Utilities	4,092	2,683	-	6,821	-	1,555
Rent	-	9,209	1,861	22,100	3,900	12,000
Auto and travel	8,649	5,951	2,511	5,989	1,094	7,610
Postage and printing	4,197	2,102	18	298	7	578
Conferences and meetings	290	823	250	1,050	99	1,020
Dues and subscriptions	374	-	-	290	-	455
Program expenses	7,786	39,028	627	95,296	-	7,737
Professional services	4,463	6,935	-	5,090	-	2,835
Other	1,509	575	255	424	251	631
	<u>\$ 120,185</u>	<u>\$ 190,656</u>	<u>\$ 83,208</u>	<u>\$ 220,860</u>	<u>\$ 71,301</u>	<u>\$ 144,485</u>

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**

*YEAR ENDED JUNE 30, 2013*

	<u>New Bern Office</u>	<u>Senior Pharmacy Program</u>	<u>Piedmont Office</u>	<u>CHANGE Program</u>	<u>Hispanic Counseling</u>	<u>Centro: la Comunidad</u>
Salaries and fringe benefits	\$ 107,788	\$ 25,570	\$ 149,932	\$ 30,755	\$ 51,723	\$ 81,579
Equipment and supplies	2,328	450	803	297	189	2,289
Depreciation	-	-	-	-	-	-
Repairs and maintenance	2,723	-	1,904	584	901	2,715
Telephone	1,459	730	4,174	1,267	2,012	2,289
Utilities	5,658	-	1,951	593	940	2,105
Rent	13,200	-	7,896	3,900	8,004	9,840
Auto and travel	6,082	1,185	3,438	428	383	2,999
Postage and printing	1,725	296	1,129	309	118	245
Conferences and meetings	834	803	762	233	249	538
Dues and subscriptions	220	530	32	10	205	-
Program expenses	2,311	60,795	230,256	35,586	127	12,186
Professional services	4,640	314	9,095	35	56	128
Other	978	101	2,087	117	188	430
	<u>\$ 149,946</u>	<u>\$ 90,774</u>	<u>\$ 413,459</u>	<u>\$ 74,114</u>	<u>\$ 65,095</u>	<u>\$ 117,343</u>

**CATHOLIC CHARITIES OF THE DIOCESE OF RALEIGH, INC.**  
**SCHEDULE OF FUNCTIONAL EXPENSES**

*YEAR ENDED JUNE 30, 2013*

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	<u>Newton Grove</u>	<u>Administrative</u>	<u>2013 Total</u>
Salaries and fringe benefits	\$ 43,553	\$ 320,290	\$ 2,046,566
Equipment and supplies	1,488	2,384	41,840
Depreciation	-	12,971	46,274
Repairs and maintenance	-	196	56,388
Telephone	2,321	640	43,309
Utilities	-	-	47,338
Rent	3,900	14,200	268,322
Auto and travel	6,007	14,084	90,000
Postage and printing	2,187	29,183	49,829
Conferences and meetings	232	8,486	20,988
Dues and subscriptions	-	4,569	7,978
Program expenses	2,035	57,519	5,157,165
Professional services	1,988	64,558	120,131
Other	365	11,459	29,880
	<u>\$ 64,076</u>	<u>\$ 540,539</u>	<u>\$ 8,026,008</u>