

Caritas of Waco

Financial Statements

December 31, 2011

( With Independent Auditor's Report Thereon )

# George R. Dethlefsen, CPA

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## INDEPENDENT AUDITOR'S REPORT

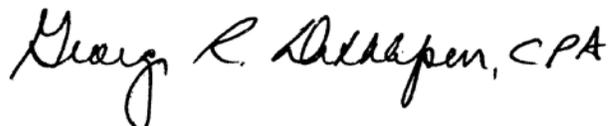
Caritas of Waco  
Waco, Texas

To the Board of Directors:

We have audited the accompanying statement of financial position of Caritas of Waco (a nonprofit organization) as of December 31, 2011, and the related statements of activities, functional expenses, and cash flows for the year then ended. These financial statements are the responsibility of the Organization's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Caritas of Waco as of December 31, 2011, and the changes in its net assets and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



George R. Dethlefsen, CPA  
Waco, Texas

June 6, 2012

**Caritas of Waco**  
**Statement of Financial Position**  
**December 31, 2011**

ASSETS

Current assets:	
Cash	\$ 463,705
Pledges receivable	695,866
Marketable securities	198,547
Food inventory	216,912
Nonfood inventory	<u>175,295</u>
Total current assets	1,750,325
Beneficial interest in charitable remainder trust	143,983
Beneficial interest in assets held by Waco Foundation	1,884,407
Fixed assets, net	<u>930,549</u>
TOTAL ASSETS	<u><u>\$ 4,709,264</u></u>

LIABILITIES AND NET ASSETS

Current liabilities:	
Accrued expenses	\$ 18,845
Other liabilities	<u>3,154</u>
Total current liabilities	<u>21,999</u>
Net assets:	
Unrestricted net assets:	
Designated for endowment	1,135,514
Undesignated	<u>2,650,364</u>
	3,785,878
Temporarily restricted net assets	<u>901,387</u>
Total net assets	<u>4,687,265</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,709,264</u></u>

The accompanying notes are an integral part of these financial statements

**Caritas of Waco**  
**Statement of Activities**  
**For the Year Ended December 31, 2011**

Changes in unrestricted net assets:

Revenues and gains:

In-kind donations of food and nonfood products	\$ 13,960,713
Contributions	444,800
Bequest	67,755
Sale of donated items	187,773
Program grants	200,897
Shared maintenance fees	173,363
Special events, net expenses of \$15,641	60,966
Investment income	2,030
Realized loss on sale of assets	(69,983)
Unrealized loss on investments	(17,112)
Change in value of charitable remainder trust	(23,479)
Change in value of assets held by Waco Foundation	(45,604)
Released from temporary restriction	22,840
Total unrestricted revenues and gains	<u>14,964,959</u>

Expenses:

Program services:

Emergency assistance	4,365,364
Household products distribution	10,216,282
Thrift stores	192,267

Supporting services:

Management and general	237,182
Fundraising	31,079

Total expenses	<u>15,042,174</u>
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Decrease in unrestricted net assets	<u>(77,215)</u>
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Changes in temporarily restricted net assets:

Gifts and grants	793,907
Released to unrestricted	<u>(22,840)</u>

Increase in temporarily restricted net assets	<u>771,067</u>
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Change in net assets	693,852
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Net assets at beginning of year	<u>3,993,413</u>
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Net assets at end of year	<u><u>\$ 4,687,265</u></u>
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The accompanying notes are an integral part of these financial statements

**Caritas of Waco**  
**Statement of Functional Expenses**  
**For the Year Ended December 31, 2011**

	Program Services			Supporting Services		Total
	Emergency Assistance	Household Products Distribution	Thrift Stores	Management and General	Fundraising	
In-kind nonfood distributed	\$ -	\$ 9,973,681	\$ -	\$ -	\$ -	\$ 9,973,681
In-kind food distributed	3,972,389	-	-	-	-	3,972,389
Salaries	165,426	142,933	127,706	103,408	18,248	557,721
Shared maintenance	56,305	-	-	-	-	56,305
Assistance to individuals	51,840	-	-	5,970	-	57,810
Utilities	12,109	12,109	15,584	8,072	-	47,874
Food purchases	92,001	-	-	-	-	92,001
Depreciation	15,294	15,294	1,965	9,931	-	42,484
Payroll taxes	-	12,497	11,426	9,222	1,627	34,772
Insurance	-	-	-	30,773	-	30,773
Repairs and maintenance	-	14,295	3,020	6,180	-	23,495
Ladies of Charity	-	-	18,075	-	-	18,075
Truck	-	29,131	-	-	-	29,131
Professional fees	-	-	-	16,510	-	16,510
Building expense	-	213	2,501	-	-	2,714
Supplies	-	3,674	3,127	4,638	-	11,439
Printing and postage	-	-	-	5,013	10,314	15,327
Telephone	-	1,696	2,049	5,041	890	9,676
Miscellaneous and other	-	2,926	3,005	31,826	-	37,757
Waste disposal	-	7,833	3,809	598	-	12,240
<b>Total expenses</b>	<b>\$4,365,364</b>	<b>\$10,216,282</b>	<b>\$ 192,267</b>	<b>\$ 237,182</b>	<b>\$ 31,079</b>	<b>\$15,042,174</b>

The accompanying notes are an integral part of these financial statements

**Caritas of Waco**  
**Statement of Cash Flows**  
**For the Year Ended December 31, 2011**

Cash flows from operating activities:

Increase in net assets	\$	693,852
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation		42,484
Realized loss		69,983
Unrealized gain on investments		17,112
Decrease in value of beneficial interest in assets held by Waco Foundation		45,604
Decrease in food inventory		34,397
Increase in nonfood inventory		(49,040)
Decrease in value of beneficial interest in charitable remainder trust		23,479
Increase in receivables		(633,411)
Increase (Decrease) in accounts payable and accrued expenses		(12,437)
		232,023
Net cash provided by operating activities		232,023

Cash flows from investing activities:

Purchase of investments (including dividends reinvested)		(1,286,641)
Proceeds from sale of assets		111,457
Capital expenditures		(95,962)
		(1,271,146)
Net cash used by investing activities		(1,271,146)

Net increase (decrease) in cash		(1,039,123)
Cash at beginning of year		1,502,828
Cash at end of year	\$	463,705

**SUPPLEMENTAL DISCLOSURE:**

Cash paid during the year for:

Interest	\$	-
Income taxes	\$	-

The accompanying notes are an integral part of these financial statements

**Caritas of Waco**  
**Notes to Financial Statements**  
**December 31, 2011**

(1) Summary of Significant Accounting Policies and Practices

Description of Activities

Caritas of Waco (Caritas) is a nonprofit organization dedicated to providing direct assistance to the poor of Central Texas. Caritas primarily provides emergency assistance by distributing to individuals and families a monthly allocation of food, which is obtained from various sources including local food drives, businesses and congregations, salvage from grocery stores, and Capital Area Food Bank. Caritas also provides emergency assistance to meet needs for clothing, utilities, prescription medications, rent, transportation, and emergency lodging. Caritas receives support in the form of contributions from individual donors, foundations, and corporations. Caritas also sells donated goods via thrift stores located in Waco and Bellmead.

Basis of Presentation

The financial statements of Caritas have been prepared in accordance with U.S. generally accepted accounting principles.

Unrestricted Net Assets

Unrestricted net assets represent resources over which the Board of Directors has discretionary control and that can be used currently for the general purposes of Caritas in accordance with its by-laws. Caritas may voluntarily designate unrestricted resources for land, buildings, endowment, or other purposes, but this is a voluntary action of the governing board that can be modified or reversed at its discretion. These designations of unrestricted resources by the governing board do not have the same legal requirements as do restrictions of funds.

Temporarily Restricted Net Assets

Temporarily restricted net assets represent resources currently available for use, but expendable only for those purposes specified by the donor. Such contributions are reported as increases in temporarily restricted net assets. When the restrictions are met (either by passage of time or by use) the net assets are reported as "net assets released from restrictions" on the statement of activities.

Permanently Restricted Net Assets

Permanently restricted net assets represent principal amounts of gifts and bequests, which have been accepted with the donor stipulation that the principal be maintained intact in perpetuity, with only the income to be utilized. The Board of Directors is authorized to utilize the earnings from these funds for the general operations of Caritas.

Support and Expenses

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. Caritas reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the reporting period in which the revenue is recognized. Caritas reports gifts of fixed

**Caritas of Waco**  
**Notes to Financial Statements**  
**December 31, 2011**

(1) Summary of Significant Accounting Policies and Practices (continued)

Support and Expenses (continued)

assets as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, Caritas reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Expenses, including routine repairs and maintenance and planned major maintenance activities, are recorded when incurred in accordance with the accrual basis of accounting.

Cash

Cash consists of amounts held on demand deposit and in money market accounts.

Marketable Securities

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statement of financial position. Investment income or loss (including gains and losses on investments, interest and dividends) is included in the statement of activities as increases or decreases in unrestricted net assets unless the income or loss is restricted by donor or law.

Donated Goods and Services

Caritas reports the fair value of gifts of donated food and other products over which it has control (i.e., variance power) as unrestricted public support and, shortly thereafter, as expense when distributed to individuals and organizations. Caritas estimates the average wholesale value of one pound of donated food product to be \$1.60 and the average wholesale value of one pound of donated nonfood product to be \$3.41 based upon a study performed by Feeding America.

Caritas receives noncash contributions of clothes and other items for resale in its thrift stores. Because a significant portion of the contributions received are not salable and therefore have little or no value, Caritas reports revenue from such donations when the items are sold.

A substantial number of volunteers have donated significant amounts of their time to Caritas and its programs; however, these donated services are not reflected in the financial statements since these services do not create or enhance nonfinancial assets or require special expertise. Volunteers contributed 37,211 hours of service during 2011. Caritas estimates that the fair value of donated services received but not recognized as revenues was \$269,780 for 2011.

Fixed Assets

Caritas capitalizes expenditures for fixed assets in excess of \$500 at cost. Depreciation on fixed assets is calculated on the straight-line method over the estimated useful lives of the assets. Fixed assets which are received from donations are recorded at fair value at the date of the gift.

**Caritas of Waco**  
**Notes to Financial Statements**  
**December 31, 2011**

(1) Summary of Significant Accounting Policies and Practices (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

(2) Pledges Receivable

Unconditional promises to give are recorded as receivables and support when received. The pledges have not been discounted. Caritas expects that the promise will be fully paid and has determined that no allowance for uncollectible amounts is necessary. These pledges are primarily related to the capital campaign to renovate the Organizations facility and payable over a three year period.

(3) Marketable Securities

Investments in marketable securities are reported at fair value as determined by quoted market prices. As of December 31, 2011, the fair value of investments held was \$198,547. Investment income and net appreciation of marketable securities consisted of the following for the year ended December 31, 2011:

Interest and dividends less expenses	\$ 412
Realized gain	18,403
Unrealized loss	<u>(17,112)</u>
	<u>\$ 1,703</u>

Investment income reported in the statement of activities includes interest earned on cash and cash equivalents of \$1,618.

(4) Remainder Trust

Caritas was named as a beneficiary in an irrevocable charitable remainder unitrust agreement executed on June 29, 1995. The trust agreement places no restrictions on the beneficiaries as to the use of the donated trust assets and states that Caritas is to receive an equal distribution of the remaining trust assets, along with another not-for-profit organization, after the death of both donors to the trust. The fair market value of the total trust assets on the date of initial funding in 1995 was \$315,669. The value of Caritas' interest in the remainder trust is recorded in the financial statements with any revaluation of the expected future distribution to Caritas recognized as a change in the value of the remainder trust in the statement of activities during the year of change. The account is valued at the fair value of the underlying investment at year-end due to the fact that the investment interest rate and the distribution rate to the donors is the same.

**Caritas of Waco**  
**Notes to Financial Statements**  
**December 31, 2011**

(5) Beneficial Interest in Assets Held by Waco Foundation

Caritas has two accounts under agreement to be managed by the Waco Foundation, a community foundation. The income earned (excluding net realized and unrealized appreciation) on the transferred assets will be paid at least annually to Caritas. The income may, if both Caritas and Waco Foundation agree, remain and accumulate with the principal. Distributions of principal may be made at the sole discretion of Waco Foundation. It is intended that assets be held for the benefit of Caritas as long as the need for the fund exists. However, the assets are subject to the governing documents of Waco Foundation and the policies and procedures of its governing body. Consequently, Waco Foundation has the right to substitute another beneficiary in the place of Caritas without the approval of Caritas. A beneficial interest in assets held by others has been recorded in the statement of financial position at the fair value of the underlying assets, which was \$1,884,407 at December 31, 2011.

In addition, the Waco Foundation holds funds donated directly to the Waco Foundation for the benefit of Caritas which are not reflected in these financial statements. The fair value of these assets was \$267,923.

During the year ended December 31, 2011, the value of Caritas' beneficial interest in assets held by Waco Foundation changed as follows:

Transfers from Caritas	\$ 1,063,730
Contributions	2,500
	1,066,230
Net investment income:	
Dividends and interest	40,752
Investment expenses	(6,429)
	34,323
Net appreciation:	
Realized gains	(13,594)
Unrealized losses	(66,333)
	(79,927)
	\$ 1,020,626

(6) Fair Value Measurements

Certain assets and liabilities in the financial statements of Caritas are reported at fair value, in accordance with FASB Statement No. 157, *Fair Value Measurements*, which defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The Statement establishes a framework for measuring fair value in GAAP, identifying three levels of measurements: quoted prices in active markets for identical assets (Level 1), significant other observable inputs (Level 2), and significant unobservable inputs (Level 3); Level 1 inputs receive the highest priority when measuring fair value. Fair values of assets are measured on a recurring basis and were as follows at December 31, 2011:

**Caritas of Waco**  
**Notes to Financial Statements**  
**December 31, 2011**

(6) Fair Value Measurements (continued)

	Fair Value	Fair Value Measurements at Reporting Date Using	
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable inputs (Level 2)
December 31, 2011			
Marketable securities	\$ 198,547	\$ 198,547	\$ -
Beneficial interest in charitable remainder trust	143,983	143,983	-
Beneficial interest in assets held by Waco Foundation	<u>1,884,407</u>	<u>-</u>	<u>1,884,407</u>
	<u>\$ 2,226,937</u>	<u>\$ 342,530</u>	<u>\$ 1,884,407</u>

(7) Fixed Assets

Fixed assets consist of the following at December 31, 2011:

Land	\$ 20,000
Building and improvements	1,133,224
Furniture and equipment	<u>277,937</u>
	1,431,161
Less accumulated depreciation	<u>(500,612)</u>
	<u>\$ 930,549</u>

Depreciation charged to expense totaled \$42,484 during 2011.

(8) Endowment

The Board of Directors of Caritas has designated certain assets for the establishment of an endowment fund to provide income for the ongoing operations and maintenance of the organization. As discussed in Note 1, internally designated amounts are reported as a component of unrestricted net assets. At December 31, 2011, Caritas' endowment consisted entirely of board-designated funds. Caritas has entrusted the management of its endowment funds to the Waco Foundation, as discussed in Note 5. The net assets of the endowment and the changes therein were as follows:

Endowment net assets, January 1, 2011	\$ 863,781
Contributions	313,730
Investment income, net	21,504
Unrealized depreciation	<u>(63,501)</u>
Endowment net assets, December 31, 2011	<u>\$ 1,135,514</u>

**Caritas of Waco**  
**Notes to Financial Statements**  
**December 31, 2011**

(9) Donated Inventory

Caritas receives, sorts, stores, and distributes donated commodities from various sources. During 2010, Caritas received and distributed approximately 2.1 million pounds of food products, and approximately 2.7 million pounds of nonfood products. Physical inventories of donated commodities consisted of the following at December 31, 2011:

	Inventory Pounds	Estimated Fair Value	Inventory Dollar Value
Food inventory	135,570	\$1.60	\$ 216,912
Nonfood inventory	51,406	3.41	175,295
	186,976		\$ 392,207

Expenses associated with handling and maintaining donated inventory are shared with organizations that Caritas receives food from and distributes nonfood products to. Amounts received from other organizations to recover costs are reported as income (shared maintenance fees) on the statement of activities. Amounts paid are reported as expenses (shared maintenance) on the statement of functional expenses.

(10) Functional Allocation of Expenses

The costs of providing the various programs, fundraising and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and fundraising activities benefited.

(11) Income Taxes

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization's federal Returns of Organization Exempt from Income Tax (Form 990) for 2010, 2009, and 2008 are subject to examination by the IRS, generally for three years after they were filed.

(12) Concentrations of Credit Risk

Caritas maintains cash and other short-term investments with stock brokerage firms. These investments are uninsured and represent a concentration of credit risk to Caritas.

During 2011, substantially all in-kind donations of nonfood products were received from a single donor. Approximately 32% of in-kind donations of food products were received from a single donor. The current level of Caritas' operations and program services would be significantly impacted if contributions from either of these donors were discontinued.

(13) Subsequent Events

The Organization has evaluated subsequent events through June 6, 2012, the date which the financial statements were available to be issued. No events have occurred subsequent to the statement of financial position date that would require adjustment to, or disclosure in, the financial statements.