

Caritas of Waco

Financial Statements

December 31, 2012 and 2011

(With Independent Auditor's Report Thereon)

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INDEPENDENT AUDITOR'S REPORT

Caritas of Waco
Waco, Texas

To the Board of Directors:

We have audited the accompanying statements of Caritas of Waco (a nonprofit organization), which comprise the statements of financial position as of December 31, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years 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

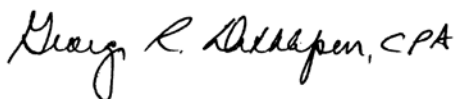
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Caritas of Waco, as of December 31, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.



George R. Dethlefsen, CPA
Waco, Texas

August 1, 2013

Caritas of Waco
Statement of Financial Position
December 31, 2012 and 2011

	<u>ASSETS</u>	
	<u>2012</u>	<u>2011</u>
Current assets:		
Cash	\$ 631,843	463,705
Pledges receivable	232,373	695,866
Marketable securities	206,137	198,547
Food inventory	20,461	216,912
Nonfood inventory	95,520	175,295
Total current assets	1,186,334	1,750,325
Beneficial interest in charitable remainder trust	150,395	143,983
Beneficial interest in assets held by Waco Foundation	1,846,491	1,884,407
Fixed assets, net	1,709,685	930,549
TOTAL ASSETS	\$ 4,892,905	4,709,264

<u>LIABILITIES AND NET ASSETS</u>		
Current liabilities:		
Accrued expenses	\$ 18,552	18,845
Other liabilities	2,965	3,154
Total current liabilities	21,517	21,999
Net assets:		
Unrestricted net assets:		
Designated for endowment	1,267,839	1,135,514
Undesignated	3,389,403	2,650,364
	4,657,242	3,785,878
Temporarily restricted net assets	214,146	901,387
Total net assets	4,871,388	4,687,265
TOTAL LIABILITIES AND NET ASSETS	\$ 4,892,905	4,709,264

The accompanying notes are an integral part of these financial statements

Caritas of Waco
Statement of Activities
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
Changes in unrestricted net assets:		
Revenues and gains:		
In-kind donations of food and nonfood products	\$ 14,218,256	13,960,713
Contributions	405,662	444,800
Bequest	8,000	67,755
Thrift stores sales	262,641	187,773
Program grants	206,680	200,897
Shared maintenance fees	202,810	173,363
Special events, net expenses of \$12,700	63,691	60,966
Investment income	5,142	2,030
Realized loss on sale of assets	(6,968)	(69,983)
Unrealized gain on investments	3,076	(17,112)
Change in value of charitable remainder trust	6,413	(23,479)
Change in value of assets held by Waco Foundation	161,984	(45,604)
Released from temporary restriction	985,817	22,840
Total unrestricted revenues and gains	<u>16,523,204</u>	<u>14,964,959</u>
Expenses:		
Program services:		
Emergency assistance	3,508,998	4,514,336
Household products distribution	11,621,917	10,039,559
Thrift stores	209,220	192,267
Supporting services:		
Management and general	253,572	264,933
Fundraising	58,133	31,079
Total expenses	<u>15,651,840</u>	<u>15,042,174</u>
Increase (Decrease) in unrestricted net assets	<u>871,364</u>	<u>(77,215)</u>
Changes in temporarily restricted net assets:		
Gifts and grants	298,576	793,907
Released to unrestricted	(985,817)	(22,840)
Increase (Decrease) in temporarily restricted net assets	<u>(687,241)</u>	<u>771,067</u>
Change in net assets	184,123	693,852
Net assets at beginning of year	<u>4,687,265</u>	<u>3,993,413</u>
Net assets at end of year	<u>\$ 4,871,388</u>	<u>4,687,265</u>

The accompanying notes are an integral part of these financial statements

Caritas of Waco
Statement of Functional Expenses
For the Year Ended December 31, 2012

	Program Services			Supporting Services		Total
	Emergency Assistance	Household Products Distribution	Thrift Stores	Management and General	Fundraising	
In-kind nonfood distributed	\$ -	\$11,548,352	\$ -	\$ -	\$ -	\$ 11,548,352
In-kind food distributed	2,946,130	-	-	-	-	2,946,130
Salaries	291,469	39,455	138,410	91,016	38,579	598,929
Food purchases	140,669	-	-	-	-	140,669
Assistance to individuals	23,088	-	-	32,082	-	55,170
Utilities	8,791	8,791	15,477	8,793	-	41,852
Depreciation	24,299	12,134	-	12,134	-	48,567
Payroll taxes	24,715	3,587	11,947	7,367	2,970	50,586
Insurance	-	-	-	35,290	-	35,290
Repairs and maintenance	-	193	2,802	7,152	-	10,147
Ladies of Charity	-	-	8,504	-	-	8,504
Truck	26,743	7,747	-	-	-	34,490
Professional fees	-	-	-	16,820	-	16,820
Building expense	7,901	-	12,949	494	-	21,344
Supplies	2,974	792	4,012	4,592	-	12,370
Printing and postage	-	-	-	5,187	11,158	16,345
Telephone	2,284	-	4,426	4,668	-	11,378
Miscellaneous and other	2,241	866	3,066	23,817	5,426	35,416
Waste disposal	7,694	-	4,748	791	-	13,233
Bank fees	-	-	2,879	3,369	-	6,248
Total expenses	\$ 3,508,998	\$11,621,917	\$ 209,220	\$ 253,572	\$ 58,133	\$ 15,651,840

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	274,154	34,204	127,706	103,408	18,248	557,720
Food purchases	148,306	-	-	-	-	148,306
Assistance to individuals	9,264	-	-	34,203	-	43,467
Utilities	12,109	12,109	15,584	8,072	-	47,874
Depreciation	21,617	9,451	1,965	9,451	-	42,484
Payroll taxes	23,706	3,134	11,426	9,222	1,627	49,115
Insurance	-	-	-	30,773	-	30,773
Repairs and maintenance	14,295	-	3,020	6,180	-	23,495
Ladies of Charity	-	-	18,075	-	-	18,075
Truck	22,785	6,346	-	-	-	29,131
Professional fees	-	-	-	16,510	-	16,510
Building expense	3,031	-	2,501	-	-	5,532
Supplies	2,020	158	3,127	4,638	-	9,943
Printing and postage	-	-	-	5,013	10,314	15,327
Telephone	1,696	-	2,049	5,041	890	9,676
Miscellaneous and other	1,131	476	2,783	27,934	-	32,324
Waste disposal	7,833	-	3,809	598	-	12,240
Bank fees	-	-	222	3,890	-	4,112
Total expenses	\$ 4,514,336	\$ 10,039,559	\$ 192,267	\$ 264,933	\$ 31,079	\$ 15,042,174

The accompanying notes are an integral part of these financial statements

Caritas of Waco
Statement of Cash Flows
For the Years Ended December 31, 2012 and 2011

	<u>2012</u>	<u>2011</u>
<u>Cash flows from operating activities:</u>		
Increase in net assets	\$ 184,123	693,852
Adjustments to reconcile change in net assets to cash provided by operating activities:		
Depreciation	48,566	42,484
Realized loss	-	69,983
Unrealized gain on investments	37,916	17,112
Decrease (Increase) in value of beneficial interest in assets held by Waco Foundation	-	45,604
Decrease (Increase) in food inventory	196,451	34,397
Decrease (Increase) in nonfood inventory	79,775	(49,040)
Decrease (Increase) in value of beneficial interest in charitable remainder trust	(6,412)	23,479
Decrease (Increase) in receivables	463,493	(633,411)
Decrease in accounts payable and accrued expenses	<u>(482)</u>	<u>(12,437)</u>
Net cash used by operating activities	<u>1,003,430</u>	<u>232,023</u>
<u>Cash flows from investing activities:</u>		
Purchase of investments (including dividends reinvested)	(7,590)	(1,286,641)
Proceeds from sale of assets	-	111,457
Capital expenditures	<u>(827,702)</u>	<u>(95,962)</u>
Net cash used by investing activities	<u>(835,292)</u>	<u>(1,271,146)</u>
Net increase (decrease) in cash	168,138	(1,039,123)
Cash at beginning of year	<u>463,705</u>	<u>1,502,828</u>
Cash at end of year	<u>\$ 631,843</u>	<u>463,705</u>
 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, 2012 and 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 assets as

Caritas of Waco
Notes to Financial Statements
December 31, 2012 and 2011

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

Support and Expenses (continued)

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 \$1.69 for 2012 and \$1.60 for 2011 and the average wholesale value of one pound of donated nonfood product to be \$3.98 for 2012 and \$3.41 for 2011 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 34,816 and 37,211 hours of service during 2012 and 2011. Caritas estimates that the fair value of donated services received but not recognized as revenues was \$252,416 and \$269,780 for 2012 and 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, 2012 and 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, 2012 and 2011, the fair value of investments held was \$206,137 and \$198,547. Investment income and net appreciation of marketable securities consisted of the following for the year ended December 31:

	<u>2012</u>	<u>2011</u>
Interest and dividends less expenses	\$ 4,514	412
Realized gain	-	18,403
Change in unrealized gain	<u>3,076</u>	<u>(17,112)</u>
	<u>\$ 7,590</u>	<u>1,703</u>

Investment income reported in the statement of activities includes interest earned on cash and cash equivalents of \$628 for 2012 and \$1,618 for 2011.

(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, 2012 and 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 \$1,846,491 and \$1,884,407 at December 31, 2012 and 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 \$305,922 and \$267,923 at December 31, 2012 and 2011.

During the year ended December 31, 2012 and 2011, the value Caritas' beneficial interest in assets held by Waco Foundation changed as follows:

	<u>2012</u>	<u>2011</u>
Transfers from (to) Caritas	\$ (245,797)	1,063,730
Contributions	5,125	2,500
	<u>(240,672)</u>	<u>1,066,230</u>
Net investment income:		
Dividends and interest	25,660	40,752
Investment expenses	(7,567)	(6,429)
	<u>18,093</u>	<u>34,323</u>
Net appreciation:		
Realized losses	(3,406)	(13,594)
Unrealized gains	188,069	(66,333)
	<u>184,663</u>	<u>(79,927)</u>
	<u>\$ (37,916)</u>	<u>1,020,626</u>

(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:

Caritas of Waco
Notes to Financial Statements
December 31, 2012 and 2011

(6) Fair Value Measurements (continued)

	<u>Fair Value</u>	<u>Fair Value Measurements at Reporting Date Using</u>	
		<u>Quoted Prices in Active Markets for Identical Assets (Level 1)</u>	<u>Significant Other Observable inputs (Level 2)</u>
December 31, 2012			
Marketable securities	\$ 206,137	\$ 206,137	\$ -
Beneficial interest in charitable remainder trust	150,395	150,395	-
Beneficial interest in assets held by Waco Foundation	1,846,491	-	1,846,491
	<u>\$ 2,203,023</u>	<u>\$ 356,532</u>	<u>\$ 1,846,491</u>
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	1,884,407	-	1,884,407
	<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:

	<u>2012</u>	<u>2011</u>
Land	\$ 20,000	20,000
Building and improvements	1,815,682	1,133,224
Furniture and equipment	410,097	277,937
	<u>2,245,779</u>	<u>1,431,161</u>
Less accumulated depreciation	<u>(536,094)</u>	<u>(500,612)</u>
	<u>\$ 1,709,685</u>	<u>930,549</u>

Depreciation charged to expense totaled \$48,566 and \$42,484 during 2012 and 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, 2012, 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 for 2012 and 2011:

Caritas of Waco
Notes to Financial Statements
December 31, 2012 and 2011

(8) Endowment (continued)

	<u>2012</u>	<u>2011</u>
Endowment net assets, January 1	\$ 1,135,514	863,781
Contributions	13,052	313,730
Investment income, net	165,071	21,504
Net appreciation	<u>(45,798)</u>	<u>(63,501)</u>
Endowment net assets, December 31	<u>\$ 1,267,839</u>	<u>1,135,514</u>

(9) Donated Inventory

Caritas receives, sorts, stores, and distributes donated commodities from various sources. During 2012, Caritas received and distributed approximately 1.7 million pounds of food products, and approximately 2.9 million pounds of nonfood products. Physical inventories of donated commodities consisted of the following at December 31, 2012 and 2011:

	<u>Inventory Pounds</u>	<u>Estimated Fair Value</u>	<u>Inventory Dollar Value</u>
December 31, 2012			
Food inventory	12,107	\$1.69	\$ 20,461
Nonfood inventory	<u>24,000</u>	3.98	<u>95,520</u>
	<u>36,107</u>		<u>\$ 115,981</u>
December 31, 2011			
Food inventory	135,570	\$1.60	\$ 216,912
Nonfood inventory	<u>51,406</u>	3.41	<u>175,295</u>
	<u>186,976</u>		<u>\$ 392,207</u>

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 (food purchases) 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 2011, 2010, and 2009 are subject to examination by the IRS, generally for three years after they were filed.

Caritas of Waco
Notes to Financial Statements
December 31, 2012 and 2011

(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 2012, substantially all in-kind donations of nonfood products were received from a single donor. Approximately 33% 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 August 1, 2013, 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.