

**CATHOLIC CHARITIES, INC. - ARCHDIOCESE OF
HARTFORD
AND SUBSIDIARY**

Consolidated Financial Statements

June 30, 2019 and 2018



ASSURANCE | ADVISORY | TAX | TECHNOLOGY

**CATHOLIC CHARITIES, INC. - ARCHDIOCESE OF HARTFORD
AND SUBSIDIARY**

Table of Contents

June 30, 2019 and 2018

Independent Auditors' Report	1 - 2
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities.....	4
Consolidated Statements of Cash Flows	5
Consolidated Statements of Functional Expenses.....	6 - 7
Notes to Consolidated Financial Statements.....	8 - 22

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees of
Catholic Charities, Inc. - Archdiocese of Hartford

We have audited the accompanying consolidated financial statements of Catholic Charities, Inc. - Archdiocese of Hartford and Subsidiary which comprise the consolidated statements of financial position as of June 30, 2019 and 2018, and the related consolidated statements of activities, cash flows, and functional expenses for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Catholic Charities, Inc. - Archdiocese of Hartford and Subsidiary as of June 30, 2019 and 2018, and the consolidated 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.

Whittlesey PC

Hartford, Connecticut
October 17, 2019

**CATHOLIC CHARITIES, INC. - ARCHDIOCESE OF HARTFORD
AND SUBSIDIARY**

Consolidated Statements of Financial Position

June 30, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 4,561,513	\$ 5,357,370
Grants receivable	1,562,135	1,830,259
Accounts receivable, net of allowance	504,962	475,468
Deposits and prepaid expenses	211,577	161,324
Investments	8,299,150	8,177,406
Property and equipment, net	8,540,714	8,570,194
	\$ 23,680,051	\$ 24,572,021
Liabilities and Net Assets		
Liabilities		
Accounts payable and accrued liabilities	\$ 1,481,308	\$ 1,653,002
Grants payable	276,776	355,023
Reserve for self-funded unemployment insurance	210,000	292,803
Refundable advances	753,364	525,753
Notes payable, net	2,560,603	2,659,405
Accrued pension liability	2,675,358	2,376,028
	7,957,409	7,862,014
Net Assets		
Without donor restrictions:		
Undesignated	3,635,242	4,698,566
Board designated endowment	4,645,644	4,696,680
Net investment in property and equipment	5,980,111	5,910,789
	14,260,997	15,306,035
	1,461,645	1,403,972
	15,722,642	16,710,007
	\$ 23,680,051	\$ 24,572,021

The accompanying notes are an integral part of the consolidated financial statements.

CATHOLIC CHARITIES, INC. - ARCHDIOCESE OF HARTFORD AND SUBSIDIARY

Consolidated Statements of Activities

For the years ended June 30, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Operating revenues and support:						
Grants from government agencies	\$ 12,572,517	\$ -	\$ 12,572,517	\$ 13,506,760	\$ -	\$ 13,506,760
Archdiocese of Hartford	2,322,844	424,000	2,746,844	2,652,786	151,101	2,803,887
Hartford Bishops' Foundation	-	400,000	400,000	-	-	-
Contributions and private grants	2,351,104	-	2,351,104	2,471,807	302,490	2,774,297
Program service fees	5,023,936	-	5,023,936	5,155,977	-	5,155,977
Fundraising	123,750	-	123,750	166,879	-	166,879
Interest and dividends, net of fees	224,058	-	224,058	221,516	-	221,516
Other	22,881	-	22,881	17,403	-	17,403
Net assets released from program restrictions	814,194	(814,194)	-	234,266	(234,266)	-
Total operating revenues and support	<u>23,455,284</u>	<u>9,806</u>	<u>23,465,090</u>	<u>24,427,394</u>	<u>219,325</u>	<u>24,646,719</u>
Operating expenses:						
Program services	19,949,123	-	19,949,123	20,238,919	-	20,238,919
Management and general	4,245,758	-	4,245,758	4,138,603	-	4,138,603
Fundraising and development:						
Fundraising	200,595	-	200,595	213,217	-	213,217
Development	248,177	-	248,177	263,793	-	263,793
Total fundraising and development	<u>448,772</u>	<u>-</u>	<u>448,772</u>	<u>477,010</u>	<u>-</u>	<u>477,010</u>
Total operating expenses	<u>24,643,653</u>	<u>-</u>	<u>24,643,653</u>	<u>24,854,532</u>	<u>-</u>	<u>24,854,532</u>
Change in net assets from operating activities	<u>(1,188,369)</u>	<u>9,806</u>	<u>(1,178,563)</u>	<u>(427,138)</u>	<u>219,325</u>	<u>(207,813)</u>
Other changes in net assets:						
Capital grants	116,629	200,000	316,629	87,054	200,000	287,054
Bequests	-	-	-	67,698	-	67,698
Unrealized gain/(loss) on investments	62,671	-	62,671	(26,345)	-	(26,345)
Realized gain on investments	116,246	-	116,246	234,654	-	234,654
(Loss) on disposal of property	(46,880)	-	(46,880)	(214,408)	-	(214,408)
Pension changes other than net periodic pension cost	(257,468)	-	(257,468)	(429,982)	-	(429,982)
Net assets released from restrictions for capital grants	152,133	(152,133)	-	114,555	(114,555)	-
Total other changes in net assets	<u>143,331</u>	<u>47,867</u>	<u>191,198</u>	<u>(166,774)</u>	<u>85,445</u>	<u>(81,329)</u>
Change in net assets	<u>(1,045,038)</u>	<u>57,673</u>	<u>(987,365)</u>	<u>(593,912)</u>	<u>304,770</u>	<u>(289,142)</u>
Net assets, beginning of year	<u>15,306,035</u>	<u>1,403,972</u>	<u>16,710,007</u>	<u>15,899,947</u>	<u>1,099,202</u>	<u>16,999,149</u>
Net assets, end of year	<u>\$ 14,260,997</u>	<u>\$ 1,461,645</u>	<u>\$ 15,722,642</u>	<u>\$ 15,306,035</u>	<u>\$ 1,403,972</u>	<u>\$ 16,710,007</u>

The accompanying notes are an integral part of the consolidated financial statements.

**CATHOLIC CHARITIES, INC. - ARCHDIOCESE OF HARTFORD
AND SUBSIDIARY**

Consolidated Statements of Cash Flows

For the years ended June 30, 2019 and 2018

	2019	2018
Cash flows from operating activities:		
Change in net assets	\$ (987,365)	\$ (289,142)
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation	507,872	501,055
Amortization of debt issuance costs	9,545	9,545
Bequests	-	(67,698)
Contributions restricted for capital purposes	(316,629)	(287,054)
Unrealized and realized gain on investments	(178,917)	(208,309)
Bad debt	143,653	41,363
Loss on disposal of property	46,880	214,408
(Increase)/decrease in assets:		
Grants receivable	268,124	681,415
Accounts receivable, net of allowance	(173,147)	(179,685)
Deposits and prepaid expenses	(50,253)	71,576
Increase/(decrease) in liabilities:		
Accounts payable and accrued liabilities	(171,694)	(8,472)
Grants payable	(78,247)	(231,351)
Reserve for self-funded unemployment insurance	(82,803)	(43,402)
Refundable advances	227,611	296,625
Accrued pension liability	299,330	187,292
Net change in cash from operating activities	<u>(536,040)</u>	<u>688,166</u>
Cash flows from investing activities:		
Purchase of property and equipment	(525,272)	(171,633)
Proceeds from the sale of investments	238,491	105,154
Purchases of investments	(181,318)	(97,848)
Net change in cash from investing activities	<u>(468,099)</u>	<u>(164,327)</u>
Cash flows from financing activities:		
Bequests	-	67,698
Contributions restricted for capital purposes	316,629	287,054
Repayment of notes payable	(108,347)	(107,408)
Net change in cash from financing activities	<u>208,282</u>	<u>247,344</u>
Net change in cash and cash equivalents	(795,857)	771,183
Cash and cash equivalents, beginning of year	5,357,370	4,586,187
Cash and cash equivalents, end of year	<u>\$ 4,561,513</u>	<u>\$ 5,357,370</u>

The accompanying notes are an integral part of the consolidated financial statements.

**CATHOLIC CHARITIES, INC. - ARCHDIOCESE OF HARTFORD
AND SUBSIDIARY**

Consolidated Statement of Functional Expenses

For the year ended June 30, 2019

	Program Services	Management and General	Fundraising and Development	Total
Salaries and related expenses:				
Salaries	\$ 11,151,159	\$ 1,965,107	\$ 268,565	\$ 13,384,831
Employee benefits	2,075,255	805,038	45,011	2,925,304
Payroll taxes	823,452	136,390	20,292	980,134
Total salaries and related expenses	<u>14,049,866</u>	<u>2,906,535</u>	<u>333,868</u>	<u>17,290,269</u>
Other expenses:				
Professional fees and contract services	1,877,807	370,846	20,635	2,269,288
Occupancy	1,287,612	257,274	12,190	1,557,076
Program and office supplies	865,214	14,926	955	881,095
Rental and maintenance of equipment	443,653	194,539	9,044	647,236
Specific assistance	441,204	-	-	441,204
Travel	192,506	17,713	1,028	211,247
Telephone	79,781	37,079	6,075	122,935
Conferences, conventions and meetings	62,914	46,727	22,719	132,360
Interest	108,946	3,980	-	112,926
Membership dues and subscriptions	23,199	52,934	988	77,121
Program activities	53,762	-	-	53,762
Bank and service charges	32,696	55,412	344	88,452
Miscellaneous	73	2,803	712	3,588
Advertising	14,662	10,999	10,578	36,239
Special events	-	-	25,198	25,198
Printing and publications	16,435	1,567	3,405	21,407
Postage	10,688	9,759	278	20,725
Bad debt	1,910	141,743	-	143,653
Total other expenses	<u>5,513,062</u>	<u>1,218,301</u>	<u>114,149</u>	<u>6,845,512</u>
Total expenses before depreciation	19,562,928	4,124,836	448,017	24,135,781
Depreciation	<u>386,195</u>	<u>120,922</u>	<u>755</u>	<u>507,872</u>
Total expenses	<u>\$ 19,949,123</u>	<u>\$ 4,245,758</u>	<u>\$ 448,772</u>	<u>\$ 24,643,653</u>

The accompanying notes are an integral part of the consolidated financial statements.

**CATHOLIC CHARITIES, INC. - ARCHDIOCESE OF HARTFORD
AND SUBSIDIARY**

Consolidated Statement of Functional Expenses

For the year ended June 30, 2018

	Program Services	Management and General	Fundraising and Development	Total
Salaries and related expenses:				
Salaries	\$ 11,103,340	\$ 2,226,028	\$ 290,928	\$ 13,620,296
Employee benefits	2,443,901	491,027	76,316	3,011,244
Payroll taxes	819,103	162,601	21,742	1,003,446
Total salaries and related expenses	<u>14,366,344</u>	<u>2,879,656</u>	<u>388,986</u>	<u>17,634,986</u>
Other expenses:				
Professional fees and contract services	1,821,658	290,394	22,887	2,134,939
Occupancy	1,257,333	372,526	8,539	1,638,398
Program and office supplies	793,883	34,991	1,153	830,027
Rental and maintenance of equipment	363,889	251,919	9,298	625,106
Specific assistance	464,282	2,325	1,106	467,713
Travel	233,862	19,534	854	254,250
Telephone	148,618	32,950	2,467	184,035
Conferences, conventions and meetings	69,861	45,085	3,883	118,829
Interest	115,567	3,611	-	119,178
Membership dues and subscriptions	65,688	2,259	399	68,346
Program activities	64,193	-	-	64,193
Bank and service charges	12,915	68,495	-	81,410
Miscellaneous	3,757	1,961	3,496	9,214
Advertising	10,395	7,797	7,499	25,691
Special events	-	-	22,646	22,646
Printing and publications	6,164	2,269	3,546	11,979
Postage	12,887	8,036	251	21,174
Bad debt	437	40,926	-	41,363
Total other expenses	<u>5,445,389</u>	<u>1,185,078</u>	<u>88,024</u>	<u>6,718,491</u>
Total expenses before depreciation	19,811,733	4,064,734	477,010	24,353,477
Depreciation	<u>427,186</u>	<u>73,869</u>	<u>-</u>	<u>501,055</u>
Total expenses	<u>\$ 20,238,919</u>	<u>\$ 4,138,603</u>	<u>\$ 477,010</u>	<u>\$ 24,854,532</u>

The accompanying notes are an integral part of the consolidated financial statements.

**CATHOLIC CHARITIES, INC. - ARCHDIOCESE OF HARTFORD
AND SUBSIDIARY**

Notes to Consolidated Financial Statements

June 30, 2019 and 2018

NOTE 1 - ORGANIZATION AND BASIS OF PRESENTATION:

Catholic Charities, Inc. - Archdiocese of Hartford (“Catholic Charities”) is a non-profit, professional guidance and counseling service for individuals, families and their children. Services are provided to anyone, regardless of age, race, religion, ethnic origin, sex or financial circumstances. Catholic Charities provides its services throughout the Archdiocese of Hartford, Connecticut.

The financial statements reflect the transactions of Catholic Charities, Inc., and Catholic Charities Institute for the Hispanic Family Association, Inc. including all of their respective offices and programs. All significant intercompany accounts and transactions have been eliminated.

Catholic Charities Institute for the Hispanic Family Association, Inc. (“Condo Association”) is a wholly owned subsidiary of Catholic Charities, which owns the facility that houses the Institute for the Hispanic Family program.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Financial Statement Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (“U.S. GAAP”). Under these standards, Catholic Charities is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net assets without donor restrictions - Net assets that are not subject to donor-imposed stipulations.

Net assets with donor restrictions - Net assets subject to donor-imposed stipulations that expire by the passage of time, can be fulfilled by actions pursuant to the stipulations, or which may be perpetual.

Adoption of New Accounting Pronouncement

For the year ended June 30, 2019, Catholic Charities adopted the Financial Accounting Standard Board’s (“FASB”) Accounting Standards Update (“ASU”) No. 2016-14 – Not-for-Profit Entities (“Topic 958”): *Presentation of Financial Statements of Not-for-Profit Entities*. This update addresses the complexity and understandability of net asset classification, information about liquidity and availability of resources, and consistency in the type of information provided about expenses and investment return in not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 is the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily and permanently restricted net assets are now reported as net assets with donor restrictions.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Donor Restricted Endowment Funds

Catholic Charities follows the FASB Accounting Standards Codification (“ASC”) disclosure requirements for reporting donor-restricted endowment funds that relate to net asset classification of funds subject to the Uniform Prudent Management of Institutional Funds Act and include enhanced disclosures for the endowment funds.

Catholic Charities utilizes a spending policy that should preserve the real (inflation-adjusted) value of the endowment fund assets over the long term, focus more clearly on total return (asset growth and income combined) and increase the predictability of distribution levels. The annual distribution from the endowment funds will be calculated as a percentage of its asset base. It is determined that Catholic Charities will spend 5% of a 24-quarter trailing average of its asset values. Transfers made in accordance with the aforementioned spending policy amounted to \$220,144 and \$208,600 for the years ended June 30, 2019 and 2018, respectively.

Cash Equivalents

All short-term, highly liquid investments that have original maturity dates of three months or less are considered cash equivalents.

Fair Value Measurements

Catholic Charities adopted the requirements of the *Fair Value Measurements and Disclosures* topic of the FASB ASC 820. *Fair Value Measurements and Disclosures* defines fair value and establishes a framework for measuring fair value in generally accepted accounting principles. Fair value is defined as the exchange price that would be received upon sale of an asset or paid upon transfer of a liability in an orderly transaction between market participants at the measurement date and in the principal or most advantageous market for that asset or liability. The fair value should be calculated based on assumptions that market participants would use in pricing the asset or liability, not on assumptions specific to the entity. In addition, the fair value of liabilities should include consideration of non-performance risk including Catholic Charities’ own credit risk.

In addition to defining fair value, *Fair Value Measurements and Disclosures* expands the disclosure requirements around fair value and establishes a fair value hierarchy for valuation inputs. The hierarchy prioritizes the inputs into three levels based on the extent to which inputs used in measuring fair value are observable in the market. These levels are:

Level 1 - inputs are based upon unadjusted quoted prices for identical instruments traded in active markets.

Level 2 - inputs are based upon quoted prices, other than those included in Level 1, that are either directly or indirectly observable for the assets or liabilities, including inputs in markets that are not considered to be active and investments in third party investment funds which may permit redemption at net asset value at the measurement date.

Level 3 - inputs are generally unobservable and typically reflect management’s estimates of assumptions that market participants would use in pricing the asset or liability. The fair values are therefore determined using model-based techniques that include option pricing models, discounted cash flow models, and similar techniques.

Valuation techniques based on unobservable inputs are highly subjective and require judgments regarding significant matters such as the amount and timing of future cash flows and the selection of discount rates that may appropriately reflect market and credit risks. Changes in these judgments often have a material impact on the fair value estimates. In addition, since these estimates are as of a specific point in time, they are susceptible to material near-term changes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Accounts Receivable

Accounts receivable are related primarily to third-party billings and are stated at the amounts that management expect to collect from outstanding balances. An allowance for uncollectible accounts is maintained at a level adequate to absorb probable losses. Management determines the adequacy of the allowance based upon reviews of individual activity, recent loss experience, current economic conditions and other pertinent factors. The allowance for uncollectible accounts was \$118,000 and \$317,400 as of June 30, 2019 and 2018, respectively.

Grants

Catholic Charities receives a substantial portion of its revenue from grants and contracts from government agencies and private foundations. Catholic Charities recognizes contract revenue (up to the contract ceiling) from its contracts to the extent of expenses. Grants receivable represent expenditures of funds in accordance with grant restrictions or fulfillment of contract terms for which reimbursement has not yet been received by the grantor agency. Catholic Charities believes all grants receivable are considered collectible, and therefore no allowance for uncollectible accounts has been established. Grants require the fulfillment of certain conditions as set forth in the instrument of the grant. Failure to fulfill the conditions could result in the return of funds to grantors.

Refundable Advances

Refundable advances represent grants collected in advance of the period of intended support. In addition, the State of Connecticut Department of Developmental Services has provided cash advances to Catholic Charities which are refundable upon request.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as support with donor restrictions that increases net assets with donor restrictions. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the consolidated statements of activities as net assets released from restrictions. However, if a restriction is fulfilled in the same time period in which the contribution is received, the support is reported as without donor restrictions. Conditional contributions are recognized as revenue when the conditions on which they depend are substantially met.

Donated Materials, Services and Use of Facilities

Donated materials, services, and use of facilities, when significant, are reflected at their appraised or estimated value. A substantial number of volunteers have donated significant amounts of time to Catholic Charities' activities and its fundraising events. Catholic Charities recognizes contributed services when the service requires specialized skills that would typically need to be purchased if not provided by the contribution. See Note 7 for information regarding valuation of in-kind contributions.

Federal and State Income Taxes

Catholic Charities is exempt from Federal income taxation under Section 501(c)(3) of the Internal Revenue Code. Catholic Charities is also exempt from state income taxes.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED):

Property and Equipment

Property and equipment purchased for \$5,000 and greater are capitalized at cost. Depreciation is calculated using the straight-line method over the estimated useful lives of the assets. Amortization of leasehold improvements has been provided on the straight-line method over the shorter period of the lease term or the estimated life of the assets. Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the year.

The following are useful lives of the assets:

	<u>Number of Years</u>
Building	30 - 40
Leasehold and building improvements	5 - 30
Automobiles	2 - 5
Office equipment	3 - 8
Furniture	5 - 10

Use of Estimates

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

Functional Expense Allocation

The costs of providing program and other activities have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among program services and supporting services benefited. Such allocations are determined by management on an equitable basis. Compensation is allocated based upon full-time equivalents. Occupancy costs are allocated based on either square footage, estimated square footage, or head count.

Reclassifications

Certain reclassifications have been made to the June 30, 2018 financial statements to conform to the June 30, 2019 financial statement presentation.

Subsequent Events Measurement Date

Catholic Charities monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements for the year ended June 30, 2019 through October 17, 2019, the date on which financial statements were available to be issued.

NOTE 3 - SUPPLEMENTARY CASH FLOW INFORMATION:

	<u>2019</u>	<u>2018</u>
Supplementary information:		
Cash paid for interest	<u>\$ 112,926</u>	<u>\$ 119,178</u>

NOTE 4 - LIQUIDITY AND AVAILABILITY OF RESOURCES:

Catholic Charities structures its financial assets into four investment pools for the purposes of managing investment risk and to optimize investment returns within acceptable parameters. These pools are Operating Reserves, Short-Term Reserves, Intermediate Reserves and Endowment Fund. The purpose of the Operating Reserves is to provide sufficient cash to meet the day-to-day financial obligations (i.e. accounts payable, payroll) of the agency. The purpose of the Short-Term Reserves is to meet the expenses occurring as a result of unanticipated activities in the agency. The purpose of the Intermediate Reserves is to provide investment income that could either be used for: operational needs if necessary; or, re-invested to provide additional capital growth.

The purpose of the Endowment Fund is to provide ongoing funding for Catholic Charities, Inc.-Archdiocese of Hartford. A distribution policy established by the Board of Trustees allows the agency to use 5% of the previous 24 quarter average for operational needs. The agency also maintains certain custodial accounts with restricted purposes.

Catholic Charities' financial assets available to meet cash needs for general expenditures within one year of June 30, 2019 are as follows:

Cash and cash equivalents	\$ 4,561,513
Grants receivable	1,562,135
Accounts receivable, net of allowance	504,962
Investments	<u>8,299,150</u>
Total financial assets	<u>14,927,760</u>
Less amounts not available to used within one year:	
Cash and investments restricted by contractual requirements	(795,211)
Board-designated endowment	(4,645,644)
Net assets with donor restrictions	<u>(1,461,645)</u>
Total financial assets available to meet cash needs for general expenditures within one year	<u><u>\$ 8,025,260</u></u>

NOTE 5 - RELATED PARTIES:

Catholic Charities is affiliated with the Archdiocese of Hartford and the Hartford Bishops' Foundation. These organizations provide economic assistance to Catholic Charities, and personnel from these organizations serve as members of the Catholic Charities Board of Trustees.

The Archdiocese provided operational support to Catholic Charities in the amount of \$2,746,844 and \$2,803,887 for the years ended June 30, 2019 and 2018, respectively. These amounts include \$296,343 and \$346,377 for in-kind contribution of rent for use of buildings owned by the Archdiocese for the years ended June 30, 2019 and 2018, respectively. In addition, the Archdiocese provided support for capital improvements in the amount of \$200,000 for each of the years ended June 30, 2019 and 2018. The Hartford Bishops' Foundation provided operational support to Catholic Charities in the amount of \$400,000 and \$0- for the years ended June 30, 2019 and 2018, respectively.

Catholic Charities provided case management services to benefit residents of Cathedral Green, Inc. and St. Francis Xavier Plaza, pursuant to a contract with the State of Connecticut Department of Mental Health and Addiction Services. Diocesan personnel are on the Boards of both Catholic Charities and Cathedral Green. Total expenses were \$271,775 and \$260,923 for this program for the years ended June 30, 2019 and 2018, respectively.

NOTE 6 - NET CLIENT SERVICE REVENUE:

Net client service revenue is comprised of net realizable amounts from clients, third party payers and others for services rendered. Net client service revenue is included in program service fees in the statements of activities.

The following summarizes net client service revenue for the years ended June 30,:

	<u>2019</u>	<u>2018</u>
Gross client service revenue	\$ 6,922,639	\$ 7,307,026
Less: contractual allowance	<u>(3,791,494)</u>	<u>(4,002,021)</u>
Net client service revenue	<u>\$ 3,131,145</u>	<u>\$ 3,305,005</u>

For the years ended June 30, 2019 and 2018, approximately 79 and 77 percent of net client service revenue was comprised of Medicaid reimbursements, respectively. Laws and regulations governing the Medicaid program are complex and subject to interpretation. Catholic Charities believes that it is in compliance with all applicable laws and regulations. Compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicaid program. Changes in the Medicaid program and the reduction of funding levels could have an adverse impact on Catholic Charities.

NOTE 7 - IN-KIND CONTRIBUTIONS:

An estimated value for use of facilities and contributed goods and services is recorded as expenses under the following categories for the year ended June 30,:

	<u>2019</u>	<u>2018</u>
Occupancy	\$ 296,343	\$ 346,377
Other	<u>13,000</u>	<u>2,126</u>
Total	<u>\$ 309,343</u>	<u>\$ 348,503</u>

Only in-kind salaries requiring specialized skills are recognized as contributions in the financial statements as required by the *Revenue Recognition for Contributed Services* topic of the FASB Accounting Standards Codification. The corresponding revenue of \$309,343 and \$348,503 from the Archdiocese of Hartford is included in the Archdiocese of Hartford revenue on the consolidated statements of activities.

NOTE 8 - CONCENTRATION OF CREDIT RISK:

Catholic Charities maintains its cash in bank deposit accounts that, at times, may exceed federally insured limits. Catholic Charities has not experienced any losses in its cash accounts.

NOTE 9 - INVESTMENTS:

The following investments are measured at fair value and are classified as Level 1 investments, except for the interest in Archdiocese of Hartford Investment Trust, which is measured at net asset value (“NAV”).

The following represents fair value of marketable securities at June 30,:

	2019	2018
Cash and cash equivalents	\$ 138,855	\$ 72,075
Certificates of deposit	1,204,011	1,193,599
Corporate bonds	1,733,170	1,616,679
Equity funds	467,517	422,042
Interest in Archdiocese of Hartford Investment Trust - measured at NAV:		
Fixed income	1,658,334	1,668,154
Large cap	955,354	884,886
SCC index	409,634	481,957
International	705,416	737,370
Alternative	1,026,859	1,100,644
Total common collective trusts	4,755,597	4,873,011
Totals	<u>\$ 8,299,150</u>	<u>\$ 8,177,406</u>

The following is a description of the valuation methodologies used for assets measured at fair value:

Certificates of deposit - valued using observable quoted prices for identical assets in active markets.

Corporate bonds - valued at the closing price reported on the active market on which the individual securities are traded.

Equity funds - valued using observable quoted prices for identical assets in active markets.

Common collective trusts - funds held in the Archdiocese of Hartford Investment Trust are valued as a practical expedient utilizing the net asset value of shares held by Catholic Charities. The use of NAV as fair value is deemed appropriate as the collective trust does not have a finite life or unfunded commitments relating to these types of investments. The practical expedient is used for valuation, unless it is probable that the funds will sell a portion of the investment at an amount different from the net asset valuation.

The following tables summarize investments measured at fair value based on NAV per share as of June 30, 2019 and 2018:

June 30, 2019	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Interest in Archdiocese of Hartford Investment Trust	\$ 4,755,597	N/A	Quarterly	Quarterly
June 30, 2018	Fair Value	Unfunded Commitments	Redemption Frequency	Redemption Notice Period
Interest in Archdiocese of Hartford Investment Trust	\$ 4,873,011	N/A	Quarterly	Quarterly

NOTE 10 - PROPERTY AND EQUIPMENT:

The cost and accumulated depreciation of property and equipment are as follows at June 30,:

	2019	2018
Land and buildings	\$ 8,325,974	\$ 8,325,974
Leasehold and building improvements	4,869,932	4,712,915
Automobiles	301,072	102,006
Office equipment	951,588	1,095,070
Furniture	53,874	56,242
Construction in progress	-	2,638
Total cost	<u>14,502,440</u>	<u>14,294,845</u>
Less: accumulated depreciation	<u>(5,961,726)</u>	<u>(5,724,651)</u>
Property and equipment, net	<u>\$ 8,540,714</u>	<u>\$ 8,570,194</u>

NOTE 11 - CONCENTRATION OF REVENUES:

Approximately 4.2% and 5.7% of the total support and revenue received represents grants from federal agencies and 47.9% and 47.2% represent grants from state agencies for the years ended June 30, 2019 and 2018, respectively. Total grants from state agencies amounted to approximately \$11.3 and \$11.7 million for the years ended June 30, 2019 and 2018, respectively. Approximately 75% of the \$11.3 million in state funding in 2019 is comprised of grants from the following agencies: Department of Children and Families (14%), Office of Early Childhood (34%), and Department of Developmental Services (34%). If a reduction in the level of this support were to occur, there would be a significant impact on Catholic Charities' operations.

NOTE 12 - SELF-FUNDED UNEMPLOYMENT INSURANCE:

Employees are provided with unemployment benefits in the event of loss of employment. The future estimated liability was \$210,000 and \$292,803 at June 30, 2019 and 2018, respectively, which is based on an average rate of 1% of salaries and wages and is adjusted for the value of claims processed during the year.

NOTE 13 - REFUNDABLE ADVANCES:

Refundable advances consist of the following at June 30,:

	2019	2018
Refundable advances - grants	\$ 221,432	\$ 55,980
United States Conference of Catholic Bishops	27,250	27,250
Department of Developmental Services	119,943	120,256
Department of Developmental Services - Bridge Funding	<u>384,739</u>	<u>322,267</u>
Total refundable advances	<u>\$ 753,364</u>	<u>\$ 525,753</u>

NOTE 14 - ENDOWMENT ASSETS:

The following represents endowment assets and activity for the years ended June 30,:

	<u>Board-designated</u>	<u>Donor Restricted</u>	<u>Total</u>
Endowment assets, at July 1, 2017	\$ 4,508,318	\$ 242,395	\$ 4,750,713
Investment return, net	329,264	-	329,264
Contributions to endowment	67,698	-	67,698
Amounts appropriated for expenditure	(208,600)	-	(208,600)
Endowment assets, at June 30, 2018	<u>4,696,680</u>	<u>242,395</u>	<u>4,939,075</u>
Investment return, net	169,108	-	169,108
Contributions to endowment	-	-	-
Amounts appropriated for expenditure	(220,144)	-	(220,144)
Endowment assets, at June 30, 2019	<u>\$ 4,645,644</u>	<u>\$ 242,395</u>	<u>\$ 4,888,039</u>

NOTE 15 - NET ASSETS WITH DONOR RESTRICTIONS:

Balances in net assets with donor restrictions are held for the following purposes at June 30,:

	<u>2019</u>	<u>2018</u>
Family centers	\$ 500,464	\$ 499,648
Capital improvements	319,627	271,760
Basic human needs	567,613	558,623
Adoption	60,817	60,817
Counseling	13,124	13,124
	<u>\$ 1,461,645</u>	<u>\$ 1,403,972</u>

Net assets with donor restrictions were released for the following purposes during the years ended June 30,:

	<u>2019</u>	<u>2018</u>
Family centers	\$ 449,184	\$ 96,191
Capital improvements	152,133	114,555
Basic human needs	365,010	138,075
	<u>\$ 966,327</u>	<u>\$ 348,821</u>

NOTE 16 - NOTES PAYABLE:

Notes payable consist of the following at June 30,:

	2019	2018
<p>\$2,555,000 note payable to Connecticut Health and Educational Facilities Authority ("CHEFA") to fund the construction of a building for the Institute for the Hispanic Family. Semi-annual installments of principal and accrued interest commenced on July 1, 2010. The note was refinanced effective April 2015. The debt issuance costs related to the refinance are \$210,000, and will be amortized over the life of the loan. In accordance with the loan agreement, principal payments will increase systematically, by various increments, over the life of the loan. Principal payments were \$75,000 and \$70,000 for the years ended June 30, 2019 and 2018, respectively. The maturity date of the note is July 2038. Interest was at 3.0% for the years ended June 30, 2019 and 2018. The State of Connecticut Department of Social Services ("DSS") agreed to a debt service commitment equal to 80.8% of the principal and interest; debt service payments by DSS amounted to \$172,538 and \$168,587 for the years ended June 30, 2019 and 2018, respectively. CHEFA intercepts 19.2% of the balance of debt service payments from the City of Hartford School Readiness grant; the intercept amounted to \$33,655 and \$33,127 for the years ended June 30, 2019 and 2018, respectively. This note is collateralized by the related building in Hartford, CT.</p>	\$ 2,270,000	\$ 2,345,000
<p>\$700,000 note payable to Webster Bank for debt related to the construction of a building for the Institute for the Hispanic Family. Installments of principal and interest in the amount of \$4,388 are due monthly with a maturity date of June, 2029. The note bears interest at Eurodollar rate plus 1% per annum, which was 4% for each of the years ended June 30, 2019 and 2018, respectively. This note is collateralized by the related building in Hartford, CT.</p>	432,449	465,104
<p>\$50,000 note payable to Department of Developmental Services. Installments of principal and interest in the amount of \$300 are due monthly with a maturity date of December 1, 2030. The note bears interest at 6.0% per annum. This note is collateralized by the related property in Bloomfield, CT.</p>	29,974	30,666
<p>Total notes payable</p>	2,732,423	2,840,770
<p>Less: debt financing costs, net of amortization</p>	171,820	181,365
<p>Total notes payable, net</p>	\$ 2,560,603	\$ 2,659,405

Future minimum principal payments are as follows for the next five years ending June 30,:

2020	\$ 117,824
2021	114,404
2022	121,048
2023	127,778
2024	134,567
Thereafter	2,116,802
	\$ 2,732,423

NOTE 17 - RETIREMENT PLANS:Defined Benefit Pension Plan:

Catholic Charities had a defined benefit pension plan (the “Plan”) covering substantially all employees. The benefits are based on years of service and final average salary. Catholic Charities’ funding policy is to contribute to the Plan the annual actuarially required amounts. Contributions are intended to provide benefits based on both past and future service. All of the information presented is based on the most recent actuarial information available.

Freezing of the Plan:

The Plan was frozen effective June 30, 2008, and a new 403(b) benefit plan took effect July 1, 2008. The result of freezing the Plan is that no new employees will be added to the Plan and final average earnings will not include compensation earned by any participant after the date of the freeze. The assets of the Plan and the income earned on these assets will be used to fund current and future benefit payments.

	<u>2019</u>	<u>2018</u>
<u>Change in Projected Benefit Obligation:</u>		
Projected benefit obligation, beginning of year	\$ 12,169,293	\$ 12,246,980
Service cost	18,680	18,635
Interest cost	392,045	368,357
Change due to assumption changes	117,284	406,534
Actuarial gain	293,477	314,470
Benefits disbursed from plan assets (including expense charges)	(1,095,669)	(1,225,282)
Effects of settlement	6,727	39,599
Projected benefit obligation, end of year	<u>\$ 11,901,837</u>	<u>\$ 12,169,293</u>
<u>Change in Plan Assets:</u>		
Total fair value of plan assets, beginning of year	\$ 9,793,265	\$ 10,058,244
Actual return on plan assets	450,883	661,303
Employer contributions	78,000	299,000
Benefits disbursed from plan assets (including expense charges)	(1,095,669)	(1,225,282)
Total fair value of plan assets, end of year	<u>\$ 9,226,479</u>	<u>\$ 9,793,265</u>
<u>Funded Status:</u>		
Actuarial present value of projected benefit obligation	\$ (11,901,837)	\$ (12,169,293)
Plan assets at fair value	<u>9,226,479</u>	<u>9,793,265</u>
Unfunded status	<u>(2,675,358)</u>	<u>(2,376,028)</u>
Liability for pension benefits	<u>\$ (2,675,358)</u>	<u>\$ (2,376,028)</u>

NOTE 17 - RETIREMENT PLANS (CONTINUED):

	<u>2019</u>	<u>2018</u>
<i>Amounts Recognized in the Consolidated Statements of Financial Position and Statements of Activities:</i>		
Liability for pension benefits at beginning of fiscal year before reflecting ASC Topic 715 adjustments	\$ 385,593	\$ 416,030
Net periodic pension cost (recognized in total operating expenses)	(119,862)	(56,310)
Contribution paid during the year	<u>78,000</u>	<u>299,000</u>
Liability for pension benefits at end of fiscal year before reflecting ASC Topic 715 adjustments	343,731	658,720
Settlement loss	(241,527)	(273,127)
Net effect of adoption of recognition provisions of ASC Topic 715	<u>(2,777,562)</u>	<u>(2,761,621)</u>
Liability for pension benefits at end of fiscal year after reflecting adjustments for ASC Topic 715	<u>\$ (2,675,358)</u>	<u>\$ (2,376,028)</u>

Components of Net Periodic Pension Benefits Cost:

Service cost	\$ 18,680	\$ 18,635
Interest cost	392,045	368,357
Actual return on plan assets	(450,883)	(661,303)
Amortization of unrecognized net loss	269,973	244,572
Asset (loss) deferred	<u>(109,953)</u>	<u>86,049</u>
Net periodic pension benefit cost	<u>\$ 119,862</u>	<u>\$ 56,310</u>

Reconciliation of Items Not Yet Reflected in Net Periodic Pension Benefit Cost:

	<u>July 1, 2018</u>	<u>Reclassified as a Net Periodic Benefit Cost</u>	<u>Amounts Arising During Period</u>	<u>Effects of Settlement</u>	<u>June 30, 2019</u>
Transition obligation (or asset)	\$ -	\$ -	\$ -	\$ -	\$ -
Net prior service cost (or credit)	-	-	-	-	-
Net (gain) or loss	2,761,621	(269,973)	527,441	(241,527)	2,777,562

Estimated Effect in Next Fiscal Year - Items Not Yet Reflected in Net Periodic Pension Benefit Cost:

	<u>July 1, 2019</u>	<u>Estimated Amounts to be Reclassified as Net Periodic Benefit Cost</u>
Transition obligation (or asset)	\$ -	\$ -
Net prior service cost (or credit)	-	-
Net (gain) or loss	2,777,562	(278,487)

NOTE 17 - RETIREMENT PLANS (CONTINUED):

Assumptions Used for Determining

Net Periodic Pension Benefit Cost:

	<u>2019</u>	<u>2018</u>
Discount rate	3.15%	3.75%
Post retirement interest rate	5.50%	5.50%
Expected long-term rate of return on plan assets	7.00%	7.00%
Rate of compensation increase	N/A	N/A

Catholic Charities' expected rate of return on plan assets is determined by the plan assets' historical long-term investment performance, current asset allocation and estimates of future long-term returns by asset class.

Plan Assets:

Catholic Charities' pension plan weighted-average asset allocations at June 30, 2019 and 2018, by asset category are as follows:

	<u>2019</u>	<u>2018</u>
Equity	53.00%	53.30%
Fixed income	46.60%	34.10%
General account	0.40%	12.60%
Total	<u>100.00%</u>	<u>100.00%</u>

Catholic Charities' investment policy is to manage the Plan with long-term objectives; with little concern for high current income or the need to maintain ready-cash reserves beyond those necessary to pay current benefits for the Plan; and with the intent to achieve the highest long-term rate of return without jeopardizing Catholic Charities' funding policy or creating undue funding volatility.

The following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2019.

Registered Investment Companies (Mutual Funds): Valued at the daily closing price as reported by the fund. Mutual funds held by the Plan are open-end mutual funds that are registered with the Securities and Exchange Commission. These funds are required to publish their daily net asset value ("NAV") and to transact at that price. The mutual funds held by the Plan are deemed to be actively traded.

Insurance Company General Account (Interest Accumulation Account): Credited with contractual rate of return.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Plan believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different value measurement at the reporting date.

NOTE 17 - RETIREMENT PLANS (CONTINUED):

The fair values of Catholic Charities' Pension Plan assets, by asset class are as follows at June 30, 2019:

	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Interest accumulation account	\$ 41,235	\$ 41,235	\$ -	\$ -
Mutual Funds:				
Equity	4,885,393	4,885,393	-	-
Fixed income	4,299,851	4,299,851	-	-
Total mutual funds	9,185,244	9,185,244	-	-
Total investments, fair value	<u>\$ 9,226,479</u>	<u>\$ 9,226,479</u>	<u>\$ -</u>	<u>\$ -</u>

The fair values of Catholic Charities' Pension Plan assets, by asset class are as follows at June 30, 2018:

	<u>Total</u>	<u>(Level 1)</u>	<u>(Level 2)</u>	<u>(Level 3)</u>
Interest accumulation account	\$ 1,230,310	\$ 1,230,310	\$ -	\$ -
Mutual Funds:				
Equity	5,222,480	5,222,480	-	-
Fixed income	3,340,475	3,340,475	-	-
Total mutual funds	8,562,955	8,562,955	-	-
Total investments, fair value	<u>\$ 9,793,265</u>	<u>\$ 9,793,265</u>	<u>\$ -</u>	<u>\$ -</u>

The following benefit payments that reflect expected future service, as appropriate, are expected to be paid:

<u>Fiscal Year End</u>	
2020	\$ 3,167,000
2021	1,270,000
2022	770,000
2023	836,000
2024	681,000
2025-2029	4,355,000

Section 403(b) Defined Contribution Plan:

Catholic Charities offers a 403(b) benefit plan. There is no minimum age requirement to make salary reduction contributions to this plan. The participant can enroll on the first day of the month coinciding with or immediately following the date of hire. Employees who are twenty one years of age, work twenty or more hours and completed at least one year of service are eligible to receive employer base contributions. The employer also makes an additional matching contribution to the Plan for eligible participants based on years of service, ranging from 3% to 6% for years of service less than five to greater than 15 years of service, respectively. Total employer contributions for the years ended June 30, 2019 and 2018 were \$302,487 and \$371,675, respectively.

Section 457(b) Deferred Compensation Plan:

Catholic Charities also maintains a 457(b) nonqualified deferred compensation plan for highly compensated employees only. The plan investments totaled \$68,637 and \$49,529 as of June 30, 2019 and 2018, respectively, and are included in deposits and prepaid expenses on the consolidated statements of financial position.

NOTE 18 - OPERATING LEASES:

Catholic Charities has occupancy leases for several of its programs through 2033. Lease expense was \$188,734 and \$153,492 for the years ended June 30, 2019 and 2018, respectively.

Catholic Charities leases vehicles for transportation support of its programs through 2020. Lease expense was \$36,625 and \$78,531 for the years ended June 30, 2019 and 2018, respectively.

Catholic Charities also leases furniture and office equipment through 2024. Lease expense was \$85,251 and \$89,233 for the years ended June 30, 2019 and 2018, respectively.

The minimum payments required by the leases for the next five years and thereafter are as follows:

2020	\$	294,435
2021		261,841
2022		226,323
2023		186,420
2024		172,687
Thereafter		243,603
	\$	<u>1,385,309</u>

NOTE 19 - COMMITMENTS AND CONTINGENCIES:

Catholic Charities is, from time to time, subject to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of Catholic Charities.

Catholic Charities is subject to cost settlement procedures prescribed by state and federal agencies and other funding sources. Management has estimated no cost settlements for the years ended June 30, 2019 and 2018.

The CHEFA loan agreement requires that Catholic Charities maintain a renewal and replacement fund equal to two percent (2%) of annual revenues of the Institute for the Hispanic Family facility. The balance in the renewal and replacement fund held in custody by CHEFA was \$26,836 and \$26,285 on June 30, 2019 and 2018, respectively.

Catholic Charities is the recipient of bonding grants from various state agencies for the purpose of capital improvements. With these grants, Catholic Charities is required to maintain its operations for 10 years following the completion of all renovations to the specific location. If Catholic Charities is not in compliance with this and other restrictions, the State of Connecticut has the ability to request repayment of the funds on a percentage basis.

	Award Amount	Expired Amount	Expiration Date
Department of Education	\$ 120,030	\$ 48,000	6/30/2026
Department of Social Services	250,000	50,000	6/30/2027
Department of Education	442,679	88,000	6/30/2027

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