

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

Independent Auditors' Report
Consolidated Financial Statements

June 30, 2020 and 2019



ASSURANCE | ADVISORY | TAX | TECHNOLOGY

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

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June 30, 2020 and 2019

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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, 2020 and 2019, 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, 2020 and 2019, 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 15, 2020

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

Consolidated Statements of Financial Position

June 30, 2020 and 2019

| | 2020 | 2019 |
|--|---------------|---------------|
| Assets | | |
| Cash and cash equivalents | \$ 6,213,219 | \$ 4,470,308 |
| Restricted cash | 201,394 | 193,041 |
| Grants receivable | 3,084,435 | 1,639,698 |
| Accounts receivable, net of allowance | 596,274 | 427,399 |
| Deposits and prepaid expenses | 125,364 | 109,741 |
| Investments | 8,144,108 | 8,299,150 |
| Property and equipment, net | 9,218,378 | 8,751,222 |
| Total assets | \$ 27,583,172 | \$ 23,890,559 |
| Liabilities and Net Assets | | |
| Liabilities | | |
| Accounts payable and accrued liabilities | \$ 2,191,388 | \$ 1,481,308 |
| Grants payable | 362,858 | 276,776 |
| Reserve for self-funded unemployment insurance | 170,660 | 210,000 |
| Refundable advances | 1,145,778 | 753,364 |
| Refundable advance - Paycheck Protection Program | 3,120,000 | - |
| Notes payable, net | 2,452,708 | 2,560,603 |
| Accrued pension liability | 2,940,772 | 2,675,358 |
| Capital lease obligations | 655,088 | 210,508 |
| Total liabilities | 13,039,252 | 8,167,917 |
| Net Assets | | |
| Without donor restrictions: | | |
| Undesignated | 2,112,612 | 3,009,242 |
| Board designated endowment | 4,439,039 | 4,645,644 |
| Net investment in property and equipment | 6,110,582 | 5,980,111 |
| Total net assets without donor restrictions | 12,662,233 | 13,634,997 |
| With donor restrictions | 1,881,687 | 2,087,645 |
| Total net assets | 14,543,920 | 15,722,642 |
| Total liabilities and net assets | \$ 27,583,172 | \$ 23,890,559 |

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, 2020 and 2019

| | 2020 | | | 2019 | | |
|--|-------------------------------|----------------------------|----------------------|-------------------------------|----------------------------|----------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | Without Donor Restrictions | With Donor Restrictions | Total |
| Operating revenues and support: | | | | | | |
| Grants and contracts from government agencies | \$ 14,412,163 | \$ - | \$ 14,412,163 | \$ 13,339,082 | \$ - | \$ 13,339,082 |
| Archdiocese of Hartford | 2,182,662 | 461,100 | 2,643,762 | 2,322,844 | 424,000 | 2,746,844 |
| Hartford Bishops' Foundation | - | 361,119 | 361,119 | - | 400,000 | 400,000 |
| Contributions and private grants | 2,468,115 | - | 2,468,115 | 2,351,104 | - | 2,351,104 |
| Program service fees | 3,864,122 | - | 3,864,122 | 4,257,371 | - | 4,257,371 |
| Special events | 95,298 | - | 95,298 | 123,750 | - | 123,750 |
| Interest and dividends, net of fees | 206,637 | - | 206,637 | 224,058 | - | 224,058 |
| Other | 82,513 | - | 82,513 | 22,881 | - | 22,881 |
| Net assets released from program restrictions | 891,520 | (891,520) | - | 814,194 | (814,194) | - |
| Total operating revenues and support | <u>24,203,030</u> | <u>(69,301)</u> | <u>24,133,729</u> | <u>23,455,284</u> | <u>9,806</u> | <u>23,465,090</u> |
| Operating expenses: | | | | | | |
| Program services | 20,769,658 | - | 20,769,658 | 19,869,163 | - | 19,869,163 |
| Management and general | 3,847,094 | - | 3,847,094 | 4,224,437 | - | 4,224,437 |
| Fundraising and development | 423,106 | - | 423,106 | 448,871 | - | 448,871 |
| Total operating expenses | <u>25,039,858</u> | <u>-</u> | <u>25,039,858</u> | <u>24,542,471</u> | <u>-</u> | <u>24,542,471</u> |
| Change in net assets from operating activities | <u>(836,828)</u> | <u>(69,301)</u> | <u>(906,129)</u> | <u>(1,087,187)</u> | <u>9,806</u> | <u>(1,077,381)</u> |
| Other changes in net assets: | | | | | | |
| Capital grants | 109,864 | 21,000 | 130,864 | 116,629 | 200,000 | 316,629 |
| Bequests | 39,000 | - | 39,000 | - | - | - |
| Unrealized (loss)/gain on investments | (181,015) | - | (181,015) | 62,671 | - | 62,671 |
| Realized gain on investments | 74,461 | - | 74,461 | 116,246 | - | 116,246 |
| Gain/(loss) on disposal of property | 36,546 | - | 36,546 | (46,880) | - | (46,880) |
| Pension changes other than service cost | (372,449) | - | (372,449) | (358,650) | - | (358,650) |
| Net assets released from restrictions for capital grants | 157,657 | (157,657) | - | 234,133 | (234,133) | - |
| Net other changes in net assets | <u>(135,936)</u> | <u>(136,657)</u> | <u>(272,593)</u> | <u>124,149</u> | <u>(34,133)</u> | <u>90,016</u> |
| Change in net assets | <u>(972,764)</u> | <u>(205,958)</u> | <u>(1,178,722)</u> | <u>(963,038)</u> | <u>(24,327)</u> | <u>(987,365)</u> |
| Net assets, beginning of year | <u>13,634,997</u> | <u>2,087,645</u> | <u>15,722,642</u> | <u>14,598,035</u> | <u>2,111,972</u> | <u>16,710,007</u> |
| Net assets, end of year | <u>\$ 12,662,233</u> | <u>\$ 1,881,687</u> | <u>\$ 14,543,920</u> | <u>\$ 13,634,997</u> | <u>\$ 2,087,645</u> | <u>\$ 15,722,642</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, 2020 and 2019

| | 2020 | 2019 |
|---|---------------------|---------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ (1,178,722) | \$ (987,365) |
| Adjustments to reconcile change in net assets to net change in cash from operating activities: | | |
| Depreciation | 551,535 | 507,872 |
| Amortization of debt issuance costs | 9,545 | 9,545 |
| Contributions restricted for capital purposes | (130,864) | (316,629) |
| Unrealized and realized gain on investments | 106,554 | (178,917) |
| Bad debt | 102,007 | 143,653 |
| (Gain)/loss on disposal of property | (36,546) | 46,880 |
| (Increase)/decrease in assets: | | |
| Grants receivable | (1,444,737) | 203,236 |
| Accounts receivable, net of allowance | (270,882) | (108,259) |
| Deposits and prepaid expenses | (15,623) | (44,702) |
| Increase/(decrease) in liabilities: | | |
| Accounts payable and accrued liabilities | 710,080 | (171,694) |
| Grants payable | 86,082 | (78,247) |
| Reserve for self-funded unemployment insurance | (39,340) | (82,803) |
| Refundable advances | 392,414 | 227,611 |
| Refundable advance - Paycheck Protection Program | 3,120,000 | - |
| Accrued pension liability | 265,414 | 299,330 |
| Net change in cash from operating activities | <u>2,226,917</u> | <u>(530,489)</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (518,145) | (525,272) |
| Proceeds from the sale of investments | 245,566 | 238,491 |
| Purchases of investments | (197,078) | (181,318) |
| Net change in cash from investing activities | <u>(469,657)</u> | <u>(468,099)</u> |
| Cash flows from financing activities: | | |
| Contributions restricted for capital purposes | 130,864 | 316,629 |
| Repayment of notes payable and capital lease obligations | (136,860) | (108,347) |
| Net change in cash from financing activities | <u>(5,996)</u> | <u>208,282</u> |
| Net change in cash and cash equivalents | 1,751,264 | (790,306) |
| Cash, cash equivalents and restricted cash, beginning of year | 4,663,349 | 5,453,655 |
| Cash, cash equivalents and restricted cash, end of year | <u>\$ 6,414,613</u> | <u>\$ 4,663,349</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, 2020

| | Program Services | Management and General | Fundraising and Development | Total |
|---|----------------------|------------------------------|-----------------------------------|----------------------|
| Salaries and related expenses: | | | | |
| Salaries | \$ 12,091,891 | \$ 1,842,100 | \$ 251,801 | \$ 14,185,792 |
| Employee benefits | 1,772,506 | 681,861 | 42,618 | 2,496,985 |
| Payroll taxes | 888,776 | 136,401 | 20,005 | 1,045,182 |
| Total salaries and related expenses | <u>14,753,173</u> | <u>2,660,362</u> | <u>314,424</u> | <u>17,727,959</u> |
| Other expenses: | | | | |
| Professional fees and contract services | 1,776,268 | 330,755 | 27,205 | 2,134,228 |
| Occupancy | 1,292,122 | 138,809 | 13,361 | 1,444,292 |
| Program and office supplies | 987,740 | 23,249 | 1,341 | 1,012,330 |
| Rental and maintenance of equipment | 435,818 | 265,441 | 10,528 | 711,787 |
| Specific assistance | 337,859 | - | - | 337,859 |
| Travel | 212,106 | 11,150 | 410 | 223,666 |
| Information technology | 82,912 | 6,058 | 1,637 | 90,607 |
| Conferences, conventions and meetings | 57,313 | 17,436 | 1,560 | 76,309 |
| Interest | 139,655 | 1,329 | - | 140,984 |
| Membership dues and subscriptions | 38,448 | 32,856 | 730 | 72,034 |
| Program activities | 52,024 | - | - | 52,024 |
| Bank and service charges | 7,875 | 182,443 | 1,215 | 191,533 |
| Miscellaneous | 341 | 2,942 | 550 | 3,833 |
| Advertising | 360 | 50,967 | 15,568 | 66,895 |
| Special events | - | - | 29,619 | 29,619 |
| Printing and publications | 21,002 | 1,202 | 3,453 | 25,657 |
| Postage | 34,214 | 9,046 | 1,440 | 44,700 |
| Bad debt | 17,521 | 84,486 | - | 102,007 |
| Total other expenses | <u>5,493,578</u> | <u>1,158,169</u> | <u>108,617</u> | <u>6,760,364</u> |
| Total expenses before depreciation | 20,246,751 | 3,818,531 | 423,041 | 24,488,323 |
| Depreciation | <u>522,907</u> | <u>28,563</u> | <u>65</u> | <u>551,535</u> |
| Total expenses | <u>\$ 20,769,658</u> | <u>\$ 3,847,094</u> | <u>\$ 423,106</u> | <u>\$ 25,039,858</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 | 2,003,475 | 777,193 | 43,454 | 2,824,122 |
| Payroll taxes | 823,452 | 136,390 | 20,292 | 980,134 |
| Total salaries and related expenses | <u>13,978,086</u> | <u>2,878,690</u> | <u>332,311</u> | <u>17,189,087</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 | 432,852 | - | - | 432,852 |
| Travel | 192,506 | 17,713 | 1,028 | 211,247 |
| Information technology | 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 | 245 | 9,327 | 2,368 | 11,940 |
| 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>5,504,882</u> | <u>1,224,825</u> | <u>115,805</u> | <u>6,845,512</u> |
| Total expenses before depreciation | 19,482,968 | 4,103,515 | 448,116 | 24,034,599 |
| Depreciation | <u>386,195</u> | <u>120,922</u> | <u>755</u> | <u>507,872</u> |
| Total expenses | <u>\$ 19,869,163</u> | <u>\$ 4,224,437</u> | <u>\$ 448,871</u> | <u>\$ 24,542,471</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, 2020 and 2019

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, but which may be designated for specific purposes by Catholic Charities’ board of directors.

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.

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 \$228,256 and \$220,144 for the years ended June 30, 2020 and 2019, respectively.

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

Adoption of New Accounting Pronouncements

In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. This ASU supersedes the revenue recognition requirements in *Topic 605, Revenue Recognition*, and most industry-specific guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Catholic Charities adopted this ASU on July 1, 2019.

Catholic Charities implemented ASU 2014-09 using a full retrospective method of application. The adoption of ASU 2014-09 resulted in changes to the disclosure of revenue. There were no material changes to the recognition or presentation of revenue as a result of the application of ASU 2014-09. As a result, no cumulative effect adjustment was recorded upon adoption.

In June 2018, the FASB issued ASU 2018-08, *Not-for-Profit Entities: Clarifying the Scope and Accounting Guidance for Contributions Received and Made (Topic 958)*. The amendments in this Update provide a more robust framework to determine when a transaction should be accounted for as a contribution under Subtopic 958-605 or as an exchange transaction accounted for under other guidance (for example, Topic 606). The amendments also provide additional guidance about how to determine whether a contribution is conditional. Catholic Charities adopted this ASU on July 1, 2019.

Catholic Charities implemented ASU 2018-08 using a full retrospective method of application. The adoption of ASU 2018-08 resulted in changes to the disclosure of revenue. In accordance with the ASU, Catholic Charities has determined that bonding grants from various state agencies subject to 10 year liens previously recognized in net assets without donor restrictions should be reclassified as net assets with donor restrictions to be released from restriction subject to the passage of time. Accordingly, Catholic Charities reclassified \$708,000 at July 1, 2018 from net assets without donor restrictions to net assets with donor restrictions. There were no other material changes to the recognition or presentation of revenue as a result of the application of ASU 2018-08. As a result, no cumulative effect adjustment was recorded upon adoption.

In November 2016, the FASB issued ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The update addresses the classification and presentation of changes in restricted cash on the statements of cash flows. A key change required by ASU No. 2016-18 is that restricted cash controlled by Catholic Charities is now included in the statements of cash flows. The ASU has been applied retrospectively to all periods presented.

In March 2017, the FASB issued ASU 2017-07, *Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. This ASU improves the presentation of net periodic pension cost by requiring that an employer report the service cost component in the same line item as the other compensation costs arising from services rendered by the pertinent employees during the period. Other components of net benefit costs are required to be presented in the income statement separately from the service costs component and outside a subtotal of income from operations. Accordingly, Catholic Charities reclassified \$101,182 of other components of net benefit costs from operations to pension changes other than service cost for the year ended June 30, 2019.

Reclassifications

Certain reclassifications have been made to the June 30, 2019 financial statements to conform to the June 30, 2020 financial statement presentation.

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

Cash Equivalents

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

Restricted Cash

The following table indicates the various restrictions on cash held by Catholic Charities, and also provides a reconciliation of cash and cash equivalents and restricted cash reported within the statements of financial position that sums to the total of the same amounts shown in the statements of cash flows.

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Cash and cash equivalents | \$ 6,213,219 | \$ 4,470,308 |
| Restricted cash: | | |
| CHEFA reserves and debt service escrow | 102,229 | 101,836 |
| Group home client funds held in escrow | 99,165 | 91,205 |
| Total restricted cash | <u>201,394</u> | <u>193,041</u> |
| Total cash, cash equivalents and restricted cash shown in the statements of cash flows | <u>\$ 6,414,613</u> | <u>\$ 4,663,349</u> |

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.

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

Fair Value Measurements (Continued)

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.

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 \$159,187 and \$118,000 as of June 30, 2020 and 2019, respectively.

Revenue Recognition

Catholic Charities has multiple revenue streams that are accounted for as reciprocal exchange transactions, including program service fees received from clients in exchange for counseling, education, childcare and other program services.

The contractual relationships with clients may involve a third-party payor such as Medicare, Medicaid, or a commercial insurance company, and the transaction prices for the services provided are dependent upon the terms negotiated with the third-party payors. Treatment program fees are reported at the amount that reflects the consideration to which Catholic Charities expects to be entitled in exchange for providing services.

Catholic Charities determines transaction prices based on standard charges for goods and services provided, reduced by contractual adjustments provided to third-party payors and discounts provided to uninsured patients in accordance with Catholic Charities' policy. Catholic Charities determines its estimates of contractual adjustments and discounts based on contractual agreements, its discount policies, and historical experience. Agreements with third-party payors provide for payments at amounts less than established charges. The contracts Catholic Charities has with third-party payors also provide for retroactive audit and review of claims. Settlements with third-party payors for retroactive revenue adjustments due to audits, reviews or investigations are considered variable consideration and are included in the determination of the estimated transaction price for providing patient care.

These settlements are estimated based on the terms of the payment agreement with the payor, correspondence from the payor and Catholic Charities' historical settlement activity, including an assessment to ensure that it is probable that a significant reversal in the amount of cumulative revenue recognized will not occur when the uncertainty associated with the retroactive adjustment is subsequently resolved. Estimated settlements are adjusted in future periods as adjustments become known (that is, new information becomes available), or as years are settled or are no longer subject to such audits, reviews, and investigations.

Program service fees paid to Catholic Charities in advance represent contract liabilities and are recorded as deferred revenue. Amounts billed but unpaid are contract assets and recorded as accounts receivable.

Because Catholic Charities' performance obligations relate to contracts with a duration of less than one year, Catholic Charities has elected to apply the optional exemption provided in FASB ASC 606-10-50-14(a), *Revenue from Contracts with Customers*, and, therefore, is not required to disclose the aggregate amount of the transaction price allocated to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period. There are no incremental costs of obtaining a contract and no significant financing components.

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

Grants and Government Contracts

Catholic Charities receives grant and contract funding from various government agencies and private foundations to provide a variety of program services to the public conditioned on specific requirements included in the agreements and/or incurring allowable qualifying expenses. These program services range from childcare and family programs to behavioral health and programs for the developmentally disabled. Such grants and contracts are nonreciprocal transactions and include conditions stipulated by the granting agencies and are, therefore, accounted for as conditional contributions. Revenues from such grants and contracts are recognized as conditions are satisfied, primarily as expenses are incurred.

Grants Receivable

Grants receivable represent expenditures of funds in accordance with grant stipulations 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.

Refundable Advances

Cash received on conditional contributions prior to incurring allowable expenses are recorded as refundable advances upon receipt. In addition, the State of Connecticut Department of Developmental Services has provided cash advances to Catholic Charities which are refundable upon request.

Conditional Promises to Give

At June 30, 2020, Catholic Charities had unexpended contributions and grants of approximately \$3,890,000 that have not been recognized pending fulfillment of conditions associated with the awards.

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. Conditional contributions – that is, those with a measurable performance or other barrier and a right of return – are not recognized as revenue until 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. Catholic Charities recognizes contributions of services received if such services: (a) create or enhance nonfinancial assets (b) require specialized skills (c) are provided by individuals possessing those skills, and (d) would typically need to be purchased if not contributed. A substantial number of volunteers have donated significant amounts of time to Catholic Charities' activities and its fundraising events. The value of this contributed time is not reflected in the accompanying consolidated financial statements since it does not meet recognition criteria. See Note 6 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. All other costs are allocated directly to the benefitting program or supporting service.

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, 2020 through October 15, 2020, the date on which financial statements were available to be issued.

NOTE 3 - SUPPLEMENTARY CASH FLOW INFORMATION:

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|-------------------|
| Supplementary information: | | |
| Cash paid for interest | <u>\$ 140,984</u> | <u>\$ 112,926</u> |
| Noncash investing and financing activities: | | |
| Fixed assets acquired under capital lease obligations | <u>\$ 464,000</u> | <u>\$ -</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. A distribution policy established by the Board of Trustees allows Catholic Charities to use 5% of the previous 24 quarter average for operational needs. Catholic Charities 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, 2020 and 2019 are as follows:

| | <u>2020</u> | <u>2019</u> |
|---|--------------------------|-------------------------|
| Cash and cash equivalents | \$ 6,213,219 | \$ 4,470,308 |
| Grants receivable | 3,084,435 | 1,639,698 |
| Accounts receivable, net of allowance | 596,274 | 427,399 |
| Investments | <u>8,144,108</u> | <u>8,299,150</u> |
| Total financial assets | <u>18,038,036</u> | <u>14,836,555</u> |
| Less amounts not available to used within one year: | | |
| Investments restricted by contractual requirements | (714,200) | (704,006) |
| Board-designated endowment | (4,439,039) | (4,645,644) |
| Net assets with donor restrictions | <u>(1,881,687)</u> | <u>(2,087,645)</u> |
| Total financial assets available to meet cash needs for general expenditures within one year | <u>\$ 11,003,110</u> | <u>\$ 7,399,260</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 \$2,643,762 and \$2,746,844 for the years ended June 30, 2020 and 2019, respectively. These amounts include \$240,612 and \$277,844 for in-kind contribution of rent for use of buildings owned by the Archdiocese for the years ended June 30, 2020 and 2019, respectively. In addition, the Archdiocese provided support for capital improvements in the amount of \$21,000 and \$200,000 for the years ended June 30, 2020 and 2019, respectively. The Hartford Bishops' Foundation provided operational support to Catholic Charities in the amount of \$361,119 and \$400,000 for the years ended June 30, 2020 and 2019, respectively.

NOTE 5 - RELATED PARTIES (CONTINUED):

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 matched by grant revenues were \$266,690 and \$271,775 for this program for the years ended June 30, 2020 and 2019, respectively.

NOTE 6 - IN-KIND CONTRIBUTIONS:

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

| | <u>2020</u> | <u>2019</u> |
|-----------|-------------------|-------------------|
| Occupancy | \$ 240,612 | \$ 296,343 |
| Other | <u>11,995</u> | <u>13,000</u> |
| Totals | <u>\$ 252,607</u> | <u>\$ 309,343</u> |

For the years ended June 30, 2020 and 2019, respectively, in-kind revenue of \$240,612 and \$277,844 representing the estimated value of donated facilities from the Archdiocese of Hartford is included in Archdiocese of Hartford revenue on the consolidated statements of activities.

NOTE 7 - 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 8 - 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,:

| | <u>2020</u> | <u>2019</u> |
|---|---------------------|---------------------|
| Investments measured at Level 1: | | |
| Cash and cash equivalents | \$ 88,662 | \$ 138,855 |
| Certificates of deposit | 1,214,205 | 1,204,011 |
| Corporate bonds | 1,739,227 | 1,733,170 |
| Equity funds | <u>496,782</u> | <u>467,517</u> |
| Total investments measured at Level 1 | <u>3,538,876</u> | <u>3,543,553</u> |
| Common collective trusts measured at NAV: | | |
| Fixed income | 1,566,780 | 1,658,334 |
| Large cap | 1,147,773 | 955,354 |
| SCC index | 330,669 | 409,634 |
| International | 621,060 | 705,416 |
| Alternative | <u>938,950</u> | <u>1,026,859</u> |
| Total common collective trusts | <u>4,605,232</u> | <u>4,755,597</u> |
| Totals | <u>\$ 8,144,108</u> | <u>\$ 8,299,150</u> |

NOTE 8 - INVESTMENTS (CONTINUED):

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, 2020 and 2019:

| June 30, 2020 | Fair Value | Unfunded Commitments | Redemption Frequency | Redemption Notice Period |
|--|--------------|-------------------------|-------------------------|-----------------------------|
| Interest in Archdiocese of Hartford Investment Trust | \$ 4,605,232 | N/A | Quarterly | Quarterly |

| 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 |

NOTE 9 - PROPERTY AND EQUIPMENT:

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

| | 2020 | 2019 |
|-------------------------------------|--------------|--------------|
| Land and buildings | \$ 9,044,922 | \$ 8,638,456 |
| Leasehold and building improvements | 4,888,152 | 4,869,932 |
| Automobiles | 372,451 | 301,072 |
| Office equipment | 1,207,034 | 951,588 |
| Furniture | 27,039 | 53,874 |
| Construction in progress | 139,287 | - |
| Total cost | 15,678,885 | 14,814,922 |
| Less: accumulated depreciation | (6,460,507) | (6,063,700) |
| Property and equipment, net | \$ 9,218,378 | \$ 8,751,222 |

NOTE 10 - CONCENTRATION OF REVENUES:

Total grants and contracts from government agencies amounted to \$14,412,163 and \$13,339,082, respectively, for the years ended June 30, 2020 and 2019. These amounts represented 60% and 57%, respectively, of total support and revenue received for the years ended June 30, 2020 and 2019.

Of the \$14,412,163 representing government funding in 2020, approximately 70% is comprised of grants from the following agencies: Department of Developmental Services (40%) and Office of Early Childhood (30%). Of the \$13,339,082 representing government funding in 2019, approximately 60% is comprised of grants from the following agencies: Department of Developmental Services (32%) and Office of Early Childhood (28%). If a reduction in the level of this support were to occur, there would be a significant impact on Catholic Charities' operations.

NOTE 11 - SELF-FUNDED UNEMPLOYMENT INSURANCE:

Employees are provided with unemployment benefits in the event of loss of employment. The future estimated liability was \$170,660 and \$210,000 at June 30, 2020 and 2019, 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 12 - REFUNDABLE ADVANCES:

Refundable advances consist of the following at June 30,:

| | 2020 | 2019 |
|--|--------------|-------------|
| Refundable advances - grants | \$ 661,748 | \$ 221,432 |
| United States Conference of Catholic Bishops - Cash Advances | 27,250 | 27,250 |
| Department of Developmental Services - Cash Advances | 72,041 | 119,943 |
| Department of Developmental Services - Bridge Funding | 384,739 | 384,739 |
| | <hr/> | <hr/> |
| Total refundable advances | \$ 1,145,778 | \$ 753,364 |
| | <hr/> <hr/> | <hr/> <hr/> |

NOTE 13 - REFUNDABLE ADVANCE – PAYCHECK PROTECTION PROGRAM:

Catholic Charities has received a Small Business Administration (“SBA”) Paycheck Protection Program (“PPP”) loan in the amount of \$3,120,000. Under the PPP, funds are forgivable if utilized for qualified expenditures according to the program criteria incurred over the twenty-four-week period option, chosen by Catholic Charities, following the date of funding. In order to qualify for forgiveness, of the total funding, 60% must be spent on eligible payroll expenses, and the remaining 40% may be spent on other expenditures, such as rent and utilities. Any unforgiven balance must be repaid over two years at an annual interest rate of 1% with an initial deferment period of ten months after the conclusion of the covered period. Details of eligible forgivable expenses are fluid, and final guidance has not yet been determined by the SBA. Catholic Charities intends to comply with all requirements of the loan to ensure that the maximum loan amount allowed is forgiven. Management estimates that \$1,970,000 of expenses incurred during the fiscal year ended June 30, 2020 will be eligible for forgiveness and therefore covered by the proceeds from the PPP.

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, 2018 | \$ 4,696,680 | \$ 242,395 | \$ 4,939,075 |
| 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> |
| Investment return, net | (29,320) | - | (29,320) |
| Contributions to endowment | - | - | - |
| Amounts appropriated for expenditure | (177,285) | (50,971) | (228,256) |
| Endowment assets, at June 30, 2020 | <u>\$ 4,439,039</u> | <u>\$ 191,424</u> | <u>\$ 4,630,463</u> |

NOTE 15 - NET ASSETS WITH DONOR RESTRICTIONS:

Balances in net assets with donor restrictions are subject to the following purpose and time restrictions at June 30,:

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Family centers | \$ 110,976 | \$ 136,497 |
| Capital improvements | 270,274 | 325,931 |
| Basic human needs | 640,687 | 703,556 |
| Adoption | 22,970 | 60,817 |
| Counseling | - | 13,124 |
| Behavioral health | 69,390 | 68,000 |
| Child development | 98,284 | 51,339 |
| Elder care and intergenerational | 86,557 | 56,000 |
| Learning and life skills program | 37,549 | 46,381 |
| Bonding grants from various state agencies for capital improvements subject to 10 year liens | 545,000 | 626,000 |
| | <u>\$ 1,881,687</u> | <u>\$ 2,087,645</u> |

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

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Family centers | \$ 75,521 | \$ 449,184 |
| Capital improvements | 76,657 | 152,133 |
| Basic human needs | 409,928 | 365,010 |
| Adoption | 37,847 | - |
| Counseling | 13,124 | - |
| Behavioral health | 272,100 | - |
| Elder care and intergenerational | 20,000 | - |
| Learning and life skills program | 63,000 | - |
| Bonding grants from various state agencies for capital improvements subject to 10 year liens | 81,000 | 82,000 |
| | <u>\$ 1,049,177</u> | <u>\$ 1,048,327</u> |

NOTE 16 - NOTES PAYABLE:

Notes payable consist of the following at June 30,:

| | <u>2020</u> | <u>2019</u> |
|---|----------------------------|----------------------------|
| \$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 \$80,000 and \$75,000 for the years ended June 30, 2020 and 2019, respectively. The maturity date of the note is July 2038. Interest was at 3.0% for the years ended June 30, 2020 and 2019. 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 \$167,888 and \$175,288 for the years ended June 30, 2020 and 2019, respectively. CHEFA intercepts 19.2% of the balance of debt service payments from the City of Hartford School Readiness grant; the intercept amounted to \$32,234 and \$33,655 for the years ended June 30, 2020 and 2019, respectively. This note is collateralized by the related building in Hartford, CT. | \$ 2,190,000 | \$ 2,270,000 |
| \$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, 2020 and 2019, respectively. This note is collateralized by the related building in Hartford, CT. | 396,868 | 432,449 |
| \$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. | 28,115 | 29,974 |
| Total notes payable | <u>2,614,983</u> | <u>2,732,423</u> |
| Less: debt financing costs, net of amortization | <u>162,275</u> | <u>171,820</u> |
| Total notes payable, net | <u><u>\$ 2,452,708</u></u> | <u><u>\$ 2,560,603</u></u> |

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

| | |
|------------|----------------------------|
| 2021 | \$ 114,404 |
| 2022 | 121,048 |
| 2023 | 127,778 |
| 2024 | 134,567 |
| 2025 | 141,432 |
| Thereafter | <u>1,975,754</u> |
| | <u><u>\$ 2,614,983</u></u> |

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>2020</u> | <u>2019</u> |
|---|-----------------------|-----------------------|
| <u><i>Change in Projected Benefit Obligation:</i></u> | | |
| Projected benefit obligation, beginning of year | \$ 11,901,837 | \$ 12,169,293 |
| Service cost | 18,965 | 18,680 |
| Interest cost | 319,525 | 392,045 |
| Change due to assumption changes | 286,483 | 117,284 |
| Actuarial gain | 269,899 | 293,477 |
| Benefits disbursed from plan assets (including expense charges) | (794,828) | (1,095,669) |
| Effects of settlement | - | 6,727 |
| Projected benefit obligation, end of year | <u>\$ 12,001,881</u> | <u>\$ 11,901,837</u> |
| <u><i>Change in Plan Assets:</i></u> | | |
| Total fair value of plan assets, beginning of year | \$ 9,226,479 | \$ 9,793,265 |
| Actual return on Plan assets | 503,458 | 450,883 |
| Employer contributions | 126,000 | 78,000 |
| Benefits disbursed from Plan assets (including expense charges) | (794,828) | (1,095,669) |
| Total fair value of Plan assets, end of year | <u>\$ 9,061,109</u> | <u>\$ 9,226,479</u> |
| <u><i>Funded Status:</i></u> | | |
| Actuarial present value of projected benefit obligation | \$ (12,001,881) | \$ (11,901,837) |
| Plan assets at fair value | 9,061,109 | 9,226,479 |
| Unfunded status | <u>(2,940,772)</u> | <u>(2,675,358)</u> |
| Liability for pension benefits | <u>\$ (2,940,772)</u> | <u>\$ (2,675,358)</u> |

NOTE 17 - RETIREMENT PLANS (CONTINUED):

| | <u>2020</u> | <u>2019</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 | \$ 102,204 | \$ 385,593 |
| Net periodic pension cost | (82,628) | (119,862) |
| Contribution paid during the year | <u>126,000</u> | <u>78,000</u> |
| Liability for pension benefits at end of fiscal year before reflecting ASC Topic 715 adjustments | 145,576 | 343,731 |
| Settlement loss | - | (241,527) |
| Net effect of adoption of recognition provisions of ASC Topic 715 | <u>(3,086,348)</u> | <u>(2,777,562)</u> |
| Liability for pension benefits at end of fiscal year after reflecting adjustments for ASC Topic 715 | <u><u>\$ (2,940,772)</u></u> | <u><u>\$ (2,675,358)</u></u> |
| <i>Components of Net Periodic Pension Benefits Cost:</i> | | |
| Service cost (recognized in total operating expenses) | \$ 18,965 | \$ 18,680 |
| Interest cost | 319,525 | 392,045 |
| Actual return on Plan assets | (503,458) | (450,883) |
| Amortization of unrecognized net loss | 265,259 | 269,973 |
| Asset (loss) deferred | <u>(17,663)</u> | <u>(109,953)</u> |
| Net periodic pension benefit cost | <u><u>\$ 82,628</u></u> | <u><u>\$ 119,862</u></u> |

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

| | <u>July 1, 2019</u> | <u>Reclassified as a Net Periodic Benefit Cost</u> | <u>Amounts Arising During Period</u> | <u>June 30, 2020</u> |
|------------------------------------|-------------------------|--|--|--------------------------|
| Transition obligation (or asset) | \$ - | \$ - | \$ - | \$ - |
| Net prior service cost (or credit) | - | - | - | - |
| Net (gain) or loss | 2,777,562 | (265,259) | 574,045 | 3,086,348 |

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

| | <u>July 1, 2020</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 | 3,086,348 | (319,688) |

NOTE 17 - RETIREMENT PLANS (CONTINUED):

*Assumptions Used for Determining
Net Periodic Pension Benefit Cost:*

| | <u>2020</u> | <u>2019</u> |
|--|-------------|-------------|
| Discount rate | 2.15% | 3.15% |
| 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, 2020 and 2019, by asset category are as follows:

| | <u>2020</u> | <u>2019</u> |
|-----------------|----------------|----------------|
| Equity | 51.50% | 52.90% |
| Fixed income | 38.30% | 46.60% |
| General account | 10.20% | 0.50% |
| 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 practical 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, 2020.

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, 2020:

| | <u>Total</u> | <u>(Level 1)</u> | <u>(Level 2)</u> | <u>(Level 3)</u> |
|-------------------------------|---------------------|---------------------|------------------|------------------|
| Interest accumulation account | \$ 926,981 | \$ 926,981 | \$ - | \$ - |
| Mutual Funds: | | | | |
| Equity | 4,669,213 | 4,669,213 | - | - |
| Fixed income | 3,464,915 | 3,464,915 | - | - |
| Total mutual funds | 8,134,128 | 8,134,128 | - | - |
| Total investments, fair value | <u>\$ 9,061,109</u> | <u>\$ 9,061,109</u> | <u>\$ -</u> | <u>\$ -</u> |

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

| <u>Fiscal Year End</u> | |
|------------------------|--------------|
| 2021 | \$ 3,466,000 |
| 2022 | 787,000 |
| 2023 | 854,000 |
| 2024 | 700,000 |
| 2025 | 952,000 |
| 2026-2030 | 3,915,000 |

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, 2020 and 2019 were \$319,017 and \$302,487, 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 \$74,952 and \$68,637 as of June 30, 2020 and 2019, respectively, and are included in deposits and prepaid expenses on the consolidated statements of financial position.

NOTE 18 - LEASES:

Capital Lease Obligations

Catholic Charities leases certain properties under capital leases. The obligations under the capital leases have been recorded in the accompanying financial statements at the present value of future minimum lease payments, at discounted rates ranging from 3% to 6%. The lease terms are through 2049. As of June 30, 2020 and 2019, respectively, the properties under capital leases have a total cost of \$738,482 and \$312,482, accumulated depreciation of \$126,156 and \$101,974 respectively, and net book value of \$612,326 and \$210,508, respectively. Depreciation expense of the leased property is included in depreciation expense. A summary of the future minimum lease payments for equipment required by the lease agreements, together with the present value of the net minimum lease payments is as follows for the years ending June 30,:

| | | |
|--|----|-----------------------|
| 2021 | \$ | 43,641 |
| 2022 | | 43,641 |
| 2023 | | 43,641 |
| 2024 | | 43,641 |
| 2025 | | 43,641 |
| Thereafter | | <u>727,413</u> |
| Total future minimum lease payments | | 945,618 |
| Less amount representing interest | | <u>(290,530)</u> |
| Present value of future minimum lease payments | \$ | <u><u>655,088</u></u> |

Operating Leases

Catholic Charities has occupancy leases for several of its programs through 2035. Lease expense was \$183,494 and \$188,734 for the years ended June 30, 2020 and 2019, respectively.

Catholic Charities leases vehicles for transportation support of its programs through 2020. Lease expense was \$58,169 and \$36,625 for the years ended June 30, 2020 and 2019, respectively.

Catholic Charities also leases furniture and office equipment through 2024. Lease expense was \$66,931 and \$85,251 for the years ended June 30, 2020 and 2019, respectively.

The minimum payments required by the leases for the next five years ending June 30 are as follows:

| | | |
|------|----|-----------------------|
| 2021 | \$ | 210,749 |
| 2022 | | 203,985 |
| 2023 | | 166,183 |
| 2024 | | 160,591 |
| 2025 | | <u>32,619</u> |
| | \$ | <u><u>774,127</u></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, 2020 and 2019.

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 \$27,229 and \$26,836 as of June 30, 2020 and 2019, respectively.

In accordance with the terms of a grant award from the Department of Economic and Community Development for Groton Street Campus renovations in Hartford, Catholic Charities must maintain collateral of \$682,500. Catholic Charities maintains this collateral in a certificate of deposit. Furthermore, Catholic Charities covenants that the Groton Street Campus shall be used as a Youth Service Center for a period of 10 years.

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 | Balance Remaining | Expiration Date |
|-------------------------------|-------------------|----------------------|--------------------|
| Department of Education | \$ 120,030 | \$ 60,000 | 6/30/2026 |
| Department of Social Services | 250,000 | 175,000 | 6/30/2027 |
| Department of Education | 442,679 | 310,000 | 6/30/2027 |
| | <u>\$ 812,709</u> | <u>\$ 545,000</u> | |

The remaining balances above are included in net assets with donor restrictions and are being released from restrictions annually as the lien periods expire. See Note 15 for further information regarding net assets with donor restrictions and releases from restrictions.

NOTE 20 - RISKS AND UNCERTAINTIES

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (“COVID-19”) as a pandemic. COVID-19 has caused significant disruption in the national and global economy. Catholic Charities’ operating activities, liquidity, and cash flows have been and may continue to be adversely affected by this global pandemic. While the disruption is currently expected to be temporary, there is uncertainty related to the duration. Therefore, while Catholic Charities expects this matter may negatively impact its operations, the related financial impact for the upcoming year cannot be reasonably estimated at this time.

Beginning in March 2020, there has been significant volatility in the investment market. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in values of investment securities could occur in the near-term and that such changes could materially affect investment securities balances.

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